
RISK FACTORS

RISKS RELATING TO OUR BUSINESS

We are heavily dependent on the performance of the PRC real estate market, particularly in the Pearl River Delta region

Our business and prospects depend on the performance of the real estate market in China and, in particular, in the Pearl River Delta region. Any real estate market downturn in China generally or, in particular, in the Pearl River Delta region and other cities and regions where we operate, could adversely affect our business, results of operations and financial condition. As of September 30, 2009, among our 31 property development projects, 24 were located in the Pearl River Delta region, three were located in Chengdu in the Chengdu-Chongqing region, one was located in Changsha in the Central China region, one was located in Shanghai and two were located in Jiangyin, in the Yangtze River Delta region. These 31 property development projects have a total GFA of approximately 14.8 million sq.m. We also intend to enter into other regions, including the Pan-Bohai Bay Rim. We cannot assure you that the demand for new properties in the Pearl River Delta region and other regions and cities where we operate or intend to expand in China will continue to grow or that prices will not deteriorate further. In addition, fluctuations of supply and demand in the real estate market in China are caused by economic, social, political and other factors that are outside of our control and we cannot assure you that there will not be over-supply of properties or a economic downturn in the property sectors in the Pearl River Delta region and other cities and regions of China. Any such over-supply or economic downturn may result in a slow down in property sales or downward pressure on property prices regionally or nationwide. Any adverse development in the real estate market in the Pearl River Delta region or other regions and cities where we operate or may operate in the future in the PRC could have a material and adverse effect on our business, results of operations and financial condition.

We may not always be able to obtain land reserves that are suitable for development

We derive our revenue principally from the sale of properties that we have developed. Therefore, we must maintain or increase our land reserves in strategic locations at an appropriate pace in order to ensure sustainable business growth. Based on our current rate of property development, we believe we have sufficient land reserves for development for approximately the next five years. To have a steady stream of developed properties available for sale and sustainable growth, we need to replenish and increase our land reserves with additional land suitable for development. Our ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond our control. The supply of substantially all of the land in China is controlled by the PRC Government. The land supply policies adopted by the PRC Government directly impact our ability to acquire land use rights for development and our costs of acquisition. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which property developers may obtain land. The PRC Government also controls land supply through zoning, land usage regulations and other means. All these measures further intensify the competition for land in China among property developers. In 2002, the PRC Government introduced a nationwide system of mandatory public tender, auction or listing-for-sale for the grant of land use rights for commercial use, tourism, entertainment and commodity property development. On September 28, 2007, the Ministry of Land and Resources issued revised Rules on the Grant of State-owned Land Use Rights through Public Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有建設用地使用權規定), which further stipulate legal and procedural requirements on public tender, auction or listing-for-sale, the only means by which state-owned land use rights can be granted by the PRC Government for land to be used for industrial

RISK FACTORS

purposes, commercial purposes, tourism, entertainment and commodity property development, and require that the land premium must be paid in full to local land administration bureau pursuant to the underlying land grant contract before the land use rights certificate can be issued to the land user. Although these regulations do not prevent privately held land use rights from being traded in the secondary market, the PRC Government’s policy to grant state-owned land use rights at competitive market prices is likely to increase the acquisition cost of land reserves generally in the PRC. If we fail to acquire sufficient land reserves in a timely manner and at acceptable prices, or at all, our business and prospects, results of operations and financial condition may be materially and adversely affected.

We may not always be able to obtain land use rights certificates with respect to certain parcels of land in connection with which we have entered into various contractual arrangements

We may not always be able to obtain land use rights certificates with respect to certain parcels of land. We have entered into various contractual arrangements with a view to facilitating potential land acquisitions of land use rights for certain parcels of land in several cities in China. As of the Latest Practicable Date, these parcels of land occupied an aggregate site area of approximately 10.4 million sq.m. None of these contractual arrangements are land grant contracts or confirmation of the sale of state-owned land use rights via listing. As of the Latest Practicable Date, we had not obtained the land use rights certificates with respect to these parcels of land. We cannot assure you that the relevant PRC government authorities will grant us the appropriate land use rights or issue the relevant land use rights certificates in respect of these parcels of land and in respect of other land we may contract to acquire in the future in a timely manner, or at all. Nor can we assure you that our contractual arrangements will eventually result in our acquisition of any land use rights. As these contractual arrangements often involve multiple government approvals and relatively complex procedures, it is not uncommon to take years to acquire the underlying land, if at all. For example, with respect to three of our contractual arrangements relating to project transfers, the approval procedures for changing the designated use of land to use for construction use have been lengthier than anticipated. This in turn has delayed our original plans to obtain the respective land use rights. See contractual arrangements (15), (16) and (18) in the section entitled “Business — Other Contractual Arrangements — Contractual arrangements relating to project transfers” in this document. If we fail to obtain, or experience material delay in obtaining, the land use rights certificates with respect to any parcels of land and with respect to other land we may contract to acquire in the future, in a timely manner, or at all, our business, results of operations and financial condition may be materially and adversely affected. Furthermore, as of September 30, 2009, we had made prepayments in an aggregate amount of approximately RMB1,207.2 million and had outstanding commitments totalling approximately RMB1,967.4 million for these contractual arrangements. As advised by our PRC legal adviser, if the transactions as contemplated in the relevant agreement cannot be completed as a result of the other party’s breach, and we are not in breach of the relevant agreement, we have the legal right to recover our prepayments. However, we cannot assure you that any refund of our prepayments will be provided in a timely manner or at all. If we fail to obtain refunds, our financial condition, cash flow and results of operations may be materially and adversely affected. For more information, see the section entitled “Business — Other Contractual Arrangements” in this document.

RISK FACTORS

We may not have adequate financing to fund our land acquisitions and property projects

Property development is capital intensive. We finance our property projects primarily through a combination of internal funds, construction loans, proceeds from pre-sales and equity financing. As of June 30, 2009, our total bank and other borrowings (excluding the Loan), amounted to RMB5,424.5 million. Our ability to procure adequate and suitable financing for acquisitions of land or companies and property developments depends on a number of factors that are beyond our control, including general economic conditions, our financial strength and performance, credit availability from financial institutions, cost of borrowing and monetary policies in China. The PRC Government has in recent years implemented a number of measures to control money supply and credit availability for fixed asset investments, particularly with respect to the property development sector. For example:

- The PBOC has prohibited commercial banks from granting loans to property developers to pay land premiums since June 2003;
- The PBOC has increased the reserve requirement ratio for commercial banks 18 times between July 2006 and June 2008, from 7.5% on June 30, 2006 to 17.5% effective June 25, 2008. Since June 2008, the PBOC has decreased the reserve requirement ratio for commercial banks four times, from 17.5% to 14.5% effective December 25, 2008;
- The Ministry of Construction and other PRC government authorities jointly issued the Opinions on Adjusting the Housing Supply Structure and Stabilizing the Housing Prices (關於調整住房供應結構穩定住房價格的意見) in May 2006, which, among other things,
 - restrict the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties; and
 - prohibit commercial banks from taking commodity properties that have been vacant for more than three years as security for their loans.
- The SAFE issued the Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment that Have Properly Registered with the MOFCOM (關於下發第一批通過商務部備案的外商投資房地產項目名單的通知) in July 2007, which, among other things,
 - effectively prohibits offshore funding by FIREEs in the form of loans; and
 - restricts the ability of FIREEs to raise funds by increasing registered capital.

RISK FACTORS

- The PBOC and the CBRC jointly issued the Circular 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) in September 2007, which, among other things,
 - prohibits commercial banks from granting loans to property projects if the developer's own capital is less than 35% of the total investment amount;
 - prohibits commercial banks from granting loans to property projects that have not obtained land use rights certificates, construction land planning permits, construction works planning permits and construction works commencement permits;
 - requires that commercial bank loans to property developers be classified as real estate development loans and not as general working capital loans; and
 - requires that in principal real estate development loan proceeds may only be used for developments in the local city where the loan is originated.

On January 3, 2008, the State Council issued a Notice on Promoting the Economic Use of Land (關於促進節約集約用地的通知) with respect to the collection of additional land premium, establishment of a land utilization priority planning scheme and the formulation of a system for assessing the optimal use of land and other measures. The notice calls for the full and effective use of existing construction land and the preservation of farm land. The notice also emphasizes the enforcement of the current rules on assessing idle land fees at a rate equal to 20% of the land premium for any land left idle for over one year but less than two years. The notice also urges financial institutions to exercise caution when they process loan applications from property developers that have failed to complete development of at least one-third of the land area or to invest at least 25% of the total investment within one year of the construction date provided in the land grant contract. The notice indicates that the relevant governmental authorities will formulate and issue additional rules and regulations on these matters. The new investment catalogue issued in December 2007 is consistent with these overall trends. These government actions and policy initiatives have further limited our ability and flexibility to use bank loans to finance our acquisitions and property development projects. The PRC Government, moreover, could introduce other initiatives which may further limit our access to capital, and consequently our flexibility and ability to use bank loans or other forms of financing to finance our acquisitions and property developments. If we fail to secure adequate financing or renew our existing credit facilities prior to their expiration, or if the PRC Government adopts further restrictive credit policies in the future, our business, results of operations and financial condition may be materially and adversely affected.

Our LAT provisions and prepayments may not be sufficient to meet our LAT obligations

In accordance with the provisions of 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稅暫行條例) and the related implementation rules, all entities and individuals that receive income from the sale or transfer of land use rights, buildings and ancillary facilities are subject to LAT at progressive rates ranging from 30% to 60% of the appreciated value of the property. There is an exemption for the sale of ordinary residential property if the appreciated value does not exceed 20% of the total deductible expense items allowed under the relevant LAT regulations. This exemption is not available for sales of luxury residential properties, villas and commercial properties. It is not clear whether the residential portion of our mixed residential and commercial developments will be eligible for the exemption available to ordinary

RISK FACTORS

residential properties. The State Taxation Bureau clarified LAT settlement to some extent in its Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (關於房地產開發企業土地增值稅清算管理有關問題的通知) effective February 1, 2007. The Notice clarifies that provincial and local tax bureaus may formulate their own implementing rules and determine how LAT will be settled in their jurisdictions. The tax bureaus in general have not strictly enforced the LAT regulations, and many localities, including Shenzhen, have not published settlement rules. See “Summary of Principal Legal and Regulatory Provisions — Land appreciation tax” in Appendix V to this document.

We have been prepaying LAT in respect of our pre-sale proceeds since a prepayment obligation was imposed in 2004. In addition, we also make provision for the estimated amount of LAT that may be payable in respect of our other sales. We made LAT provisions of RMB15.0 million, RMB119.0 million, RMB12.0 million and RMB60.3 million for each of the years end December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. LAT provisions are recorded as a part of “income taxes payable” on our balance sheets. As of the Latest Practicable Date, no amount reflected in our LAT provisions for 2006, 2007, 2008 or for the six months ended June 30, 2009 had been settled. As of the Latest Practicable Date, we had not received any official exemption or confirmation with respect to our LAT liabilities for any period despite our LAT prepayments during the years. We cannot assure you that the relevant tax authorities will agree with our calculation of LAT liabilities nor can we assure you that the LAT provisions will be sufficient to cover our LAT obligations in respect of our past LAT liabilities. If the relevant tax authorities determine that our LAT liabilities exceed our LAT prepayments and provisions, and seek to collect that excess amount, our cash flow, results of operations and financial condition may be materially and adversely affected. See the section entitled “Financial Information — Critical Accounting Policies — LAT” in this document.

We experienced net cash outflows from operating activities during the Track Record Period and maintain a significant amount of indebtedness, which may materially and adversely affect our liquidity and our ability to service our indebtedness

We had a net cash outflow from operating activities of RMB27.9 million in 2006, RMB1,243.5 million in 2007, RMB1,986.9 million in 2008 and a net cash inflow from operating activities of RMB62.4 million in the six months ended June 30, 2009. We maintain a significant amount of indebtedness to finance our operations. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our total indebtedness (including bank borrowings, other borrowings and the Loan) was RMB2,361.5 million, RMB4,568.5 million, RMB6,497.5 million and RMB6,758.2 million, respectively. Our debt-to-equity ratio was approximately 367.3%, 175.1%, 209.5% and 194.8%, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. Of our total outstanding indebtedness of RMB6,758.2 million as of June 30, 2009, RMB4,107.4 million was repayable within 12 months and RMB2,650.8 million was repayable in more than one year. These aggregate amounts of indebtedness do not include our guarantee obligations of RMB1,267.5 million, RMB873.9 million, RMB1,629.0 million and RMB2,444.1 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009.

RISK FACTORS

Our cash flow and results of operations of our operating subsidiaries will affect our liquidity and our ability to service our indebtedness. We cannot assure you that we will be able to continue to generate and maintain sufficient cash flow to service our indebtedness. If we are unable to make scheduled payments in connection with our debts and other fixed payment obligations as they become due, we may need to refinance such obligations or obtain additional financing. Furthermore, some of our domestic bank loans contain cross default provisions under which default in one such loan could trigger default in one or more of the other domestic bank loans as well. We cannot assure you that our refinancing efforts would be successful or timely or that we could secure additional financing on acceptable terms, or at all. If we fail to maintain sufficient cash flow to service our indebtedness or our refinancing efforts are otherwise unsuccessful, our liquidity, business, and financial condition will be materially and adversely affected.

In addition to bank borrowings, we rely on proceeds from the pre-sale of residential properties as a major source of funding for our property development activities. If our pre-sales are limited or reduced for any reason, including policy or regulatory changes, a reduction in demand for or the prices of our properties, or an increase in the time required to complete sales, we could experience cash flow shortfalls and difficulties in funding our property development activities and servicing our indebtedness. If we are unable to obtain additional funding or to renew existing loans on acceptable terms, or at all, our business, results of operations and financial condition will be materially and adversely affected.

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

The recent global economic slowdown and turmoil in the global financial markets that started in the second half of 2008 have resulted in an increased level of commercial and consumer delinquencies, lack of consumer confidence, decreased demand for products, and increased market volatility. In particular, the economic slowdown in China caused a decline in real estate market sentiment and a decline in property prices in many areas of the PRC, including the Pearl River Delta region, since 2008. The negative impact of the recent global economic slowdown on our business is manifold and contributed to the deterioration of our results of operations and financial condition in 2008. For example:

- the uncertain economic prospect resulted in lower demand for our properties and a decline in their selling prices, which in turn resulted in a decline in our sales revenue, a decline in our gross profit margin and a write-down of our inventories. In particular, in 2008, we incurred and recognized impairment losses of RMB58.0 million on the land use rights and completed properties held for sale in Mingcui Garden Phase 1 and impairment losses of RMB155.0 million on the land use rights and the properties under development in Lijing Harbor Phase 1, primarily because our pre-sales and sales of properties in these two projects were adversely affected by the recent global economic slowdown. We experienced a loss in the second half of 2008 primarily due to the unfavorable real estate market conditions as a result of the recent global economic slowdown. Our profit for the year ended December 31, 2008 was RMB500.9 million, even though our profit for the six months ended June 30, 2008 was RMB632.5 million;

RISK FACTORS

- there was a significant decline in fair value of our investment properties, in particular, Guangzhou Jinmao, as a result of the downturn in the PRC property market. Fair value of our investment properties decreased in the second half of 2008, as a result of which fair value gains on our investment properties were RMB302.6 million for 2008, even though fair value gains on our investment properties for the first half of 2008 were RMB575.4 million;
- the recent global financial turmoil and the tightening of credit have resulted in a general credit crunch and negatively impacted our liquidity and ability to obtain additional financings for our property development, which in turn adversely affected our business expansion, development schedules and cash flow position in 2008; and
- given the adverse change in the global economy and the real estate market in China, we have scaled back our original business expansion plans, and postponed the completion and development schedules of some of our projects. We also slowed the pace of our development schedules for most projects held for future development. The delays in our property development schedules have resulted in fewer completed properties being delivered in 2008 than we originally planned and adversely affected our financial positions. For more detail, see the section entitled “Business — Impact of the Recent Global Economic Slowdown and Financial Crisis” in this document.

While the PRC Government and governments around the world have taken remedial actions to address the economic slowdown and financial market crisis, there can be no assurance that these actions will be effective. It is difficult to determine the continued impact of the global economic slowdown and financial crisis on the real estate industry in China due to its unprecedented nature. If the current global economic slowdown and financial market crisis continue or become broader than currently estimated, they could materially and adversely affect our business prospects, revenues, cash flows and financial condition.

Our operations are subject to seasonal fluctuations

Our business is subject to seasonal fluctuations. We typically conclude more sales of residential properties in the spring and fall, when prevailing weather conditions are conducive to house hunting and two major holidays occur, namely Labor Day in the first week of May, and National Day in the first week of October. Conversely, sales typically decline in the winter, due in part to unfavorable weather conditions and lack of consumer interest over the Chinese New Year holiday period, and also in summer, particularly if uncomfortably warm weather prevails. As a consequence, sales in the third and fourth quarters of the year are often higher than those in the first and second quarters, and as a result, revenue recognition and profit figures fluctuate accordingly. We expect that these fluctuations in revenue and profit will continue.

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

As long as the Loan remains outstanding, we are subject to certain restrictive covenants, details of which are set out in the sub-paragraph headed “Rights of the Lenders and restrictive covenants” in the paragraph headed “Strategic Investments — Senior secured term loan facility” in the section entitled “History, Reorganization and Group Structure” in this document, which may restrict or otherwise adversely affect our operation, such as our ability to incur additional indebtedness, acquire properties,

RISK FACTORS

make other investments, make capital expenditures, or make distributions to Shareholders. Failure by us to meet any payment obligation or to comply with any affirmative covenant or any financial ratio or violation of any restrictive covenant will constitute an event of default under the Credit Agreement. If an event of default under the Credit Agreement occurs, the Lenders will be entitled to accelerate payment of all or any part of the indebtedness owing under the Credit Agreement and to enforce all or any of the security held by the Lenders for such indebtedness. If any one of these events were to occur, our financial condition, results of operations, cash flow and cash available for distributions to Shareholders would be materially and adversely affected.

During the recent global economic downturn and financial crisis, certain events of default occurred under the Credit Agreement, such as our failure to maintain certain financial ratios. Such events of defaults did not trigger any cross default under any other loan agreements to which any members of our Group is a party. Please refer to the section entitled "History, Reorganization and Group Structure — Domestic Bank Loans With Cross Default Provisions" in this document for further information on loan agreements which our Group has entered into which contain cross default provisions. We obtained waivers from the Lenders with respect to the existing defaults under the Credit Agreement and related financing documents, including the charge over accounts, the security deed and the additional security deed entered into by our Company as collateral for the Loan, and amended the Credit Agreement. You may find additional information on the key terms of the Loan and such events of default and waivers under the sections entitled "History, Reorganization and Group Structure — Strategic Investments — Senior secured term loan facility — The Amendment Agreement as compared with the Credit Agreement dated September 12, 2007" in this document. Although it is never our intention to default under any of the Credit Agreements and the related financing documents, we cannot assure you that we will be able to avoid a default and be able to maintain the relevant financial ratios from time to time. While the relevant waivers have been obtained from the Lenders for the existing or purported events of default, we cannot assure you that the Lenders will continue to agree to entertain any waiver arrangements with us upon any future occurrence of a default under the Credit Agreement. If we are unable to obtain further waiver arrangements with the Lenders upon occurrence of any default in the future, it could lead to, among other things, an acceleration in our debt financing obligations, which could in turn have a material adverse effect on our financial condition.

We may be adversely affected by the performance of third-party contractors

We engage third-party contractors to provide various services, including design, pile setting, foundation digging, construction, equipment installation, interior decoration, electromechanical engineering, pipeline engineering and elevator installation. During the Track Record Period, payments to third-party contractors accounted for all of our total construction costs. In the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, payments to our five largest construction contractors, who are also our five largest suppliers, accounted for approximately 57.6%, 54.1%, 53% and 61.4%, respectively, of our total payments under contracts with our suppliers. During the Track Record Period, we engaged 12 principal independent third-party contractors, who carried out property construction and subcontracted various works to independent third-party subcontractors. We endeavor to employ construction contractors with good reputations, strong track records, and adequate financial resources. We also adopt and follow our own quality control procedures and routinely monitor works performed by third-party contractors. However, we cannot assure you that any third-party contractor will provide satisfactory services at our required quality level. If the performance of any third-party contractor is not satisfactory, we may need to replace that contractor or take other remedial

RISK FACTORS

actions, which could increase the cost and lengthen the time required to complete the work and ultimately the relevant development. In addition, we are expanding our business into other regional markets in China, and there may be a shortage of contractors that meet our quality requirements in these regional markets. Moreover, contractors may undertake projects for other developers, engage in risky or unsound practices or encounter financial or other difficulties, which may affect their ability to complete their work for us on time or within budget. Any of the above factors could have a material and adverse effect on our reputation, business, results of operations and financial condition.

We may be adversely affected by our joint developer’s default in the two joint development projects for which we do not hold land use rights for all the land

We have entered into two joint development projects, namely Zhongyang Haomen and Dijingwan, with Dongguan Shi Long Town Real Estate Company (東莞市石龍鎮房地產公司) (“Dongguan Shilong”), an independent third party. Respective arrangements for these joint development projects have been approved by the Dongguan Development and Reform Bureau (東莞市發展和改革局). With respect to Zhongyang Haomen, Dongguan Shilong holds land use rights certificates for four of the six parcels of land for the project, and we hold the land use rights certificates for the remaining two parcels of land. With respect to Dijingwan, Dongguan Shilong holds the land use rights certificates for the entire land for the project. If Dongguan Shilong transfers any of the land use rights certificates it holds for Zhongyang Haomen or Dijingwan to any other party, or otherwise breaches or defaults under the underlying cooperative agreements for Zhongyang Haomen or Dijingwan, our ability to develop these two projects, and in turn, our business, results of operations and financial condition, may be materially and adversely affected. See the section titled “Business — Description of Our Property Development Projects — Projects in the City of Shenzhen in the Pearl River Delta region — (15) Zhongyang Haomen (中央豪門) and (17) Dijingwan (帝景灣)” in this document.

We and Dongguan Shilong will assist the prospective purchasers of properties in Zhongyang Haomen and Dijingwan in obtaining their individual property ownership certificates in accordance with the terms of the sale and purchase agreements and in compliance with the requirements of the relevant PRC laws and regulations. If Dongguan Shilong delays or fails to render such assistance to the individual purchasers of the properties in Zhongyang Haomen or Dijingwan, we cannot assure you that we can assist such individual purchasers to obtain their individual property ownership certificates within the time period specified in the relevant sale and purchase agreements, in which case we may be subject to legal proceedings brought by such individual purchasers. Furthermore, our ability to sell the properties in these two projects may also be adversely affected. In such circumstances, our reputation, business, results of operations and financial condition may in turn be materially and adversely affected.

We may be adversely affected by our lack of experience in one infrastructure development project and the additional facilities involved in the joint development in Guangdong Tangquan Forest

We have entered into a contractual arrangement relating to infrastructure development with a view to enhancing our future expansion into the relevant markets by providing the services required under the contract. Under this contractual arrangement, we have exclusive right to invest in and engage in infrastructure construction of roads. See the section entitled “Business — Other Contractual Arrangements — Contractual arrangement relating to infrastructure development” in this document. We entered into another similar contractual arrangement relating to the infrastructure construction of a

RISK FACTORS

section of an avenue in Huizhou in January 2008, but the underlying contract was terminated in April 2009. All rights and obligations of the parties to this contractual arrangement have been terminated pursuant to the termination agreement, and there are no contingent liabilities arising from the termination. We had not been engaged in any other infrastructure development projects during the Track Record Period. In addition, we have entered into an agreement on the joint development in Guangdong Tangquan Forest, under which a project company jointly owned by us and Tangquan Linchang plans to develop, among other things, various residential and resort properties, and additional facilities including mountain roads, waterfalls, fruit orchards, mountain trails, an ecological garden and a botanical garden. Our principal purpose for the joint development of Guangdong Tangquan Forest is to develop residential and resort properties. The reason for developing the additional facilities, including mountain roads, waterfalls, fruit orchards, mountain trails, an ecological garden and a botanical garden, is to add value to and enhance the attractiveness of the residential and resort properties. We had not been engaged in any development of such additional facilities during the Track Record Period. As of the Latest Practicable Date, the project company had not commenced any development activities on this project. See the section entitled “Business — Other Contractual Arrangements — Contractual arrangements relating to cooperative or joint development — (2) Agreement for the joint development in Guangdong Tangquan Forest” in this document. As we are primarily engaged in property development and do not have the experience or requisite licenses to engage in infrastructure construction and certain construction works for the development of additional facilities in Guangdong Tangquan Forest, we have engaged or will engage qualified third-party contractors specializing in the relevant projects to undertake the construction works. There can be no assurance that such contractors will successfully complete the relevant development projects, or complete the projects in a manner satisfactory under our contractual arrangements. If the performance of any such contractor is not satisfactory, we may need to replace that contractor or take other remedial actions, which could increase the cost and lengthen the time required to complete the project. The effectiveness and performance of the third-party contractors in undertaking the construction works will, therefore, significantly affect our future expansion, and the cost and the expense for the project could in turn have a material and adverse effect on our reputation, business, results of operations and financial condition.

With respect to the joint development in Guangdong Tangquan Forest, we will endeavour to procure the project company’s ongoing compliance with the requisite procedures, approvals and permits, which will include acquisition of the relevant land use rights through the public listing-for-sale process, entry into a land grant contract with the relevant land and resources authorities, approval for project development from the development and reform commission, planning approval from the planning authorities, and a construction works commencement permit from the construction authorities. However, there can be no assurance that the project company will be able to complete the requisite procedures and obtain the requisite approvals and permits in a timely manner, or at all. If we fail to do so, or if we encounter significant delay in doing so, our development schedule could be substantially delayed, resulting in a material and adverse effect on our business, results of operations and financial condition.

We may not be able to effectively manage our expansion and growth

We have historically focused on developing properties in the Pearl River Delta region. As of September 30, 2009, we had completed property developments with a total GFA of approximately 2.5 million sq.m. in the Pearl River Delta region. In addition, as of September 30, 2009, we had completed approximately 107,986 sq.m. of GFA in Jiangyin Lake View Place in the Yangtze River Delta region. Currently, we have 25 projects under development or for future development with an estimated total

RISK FACTORS

GFA of approximately 12.2 million sq.m. in nine cities in China. While we continue to focus on our business in the Pearl River Delta region, we intend to further explore other promising markets in China. Our unprecedented expansion is based on our forward-looking assessment of market prospects. We cannot assure you that our assessments will turn out to be accurate. In addition, to succeed with our business expansion, we will need to recruit and train new managers and other employees and build our operations and reputation in these new regional markets within a relatively short period of time. We have limited knowledge of the conditions of these local property markets and little or no experience in property development in these regions. As we enter new markets, we may not have the same level of familiarity with contractors, business practices and customs and customer tastes, behavior and preferences as compared to the cities where we are an established property developer. In addition, when we enter new geographical areas, we may face intense competition from developers with an established presence and market share in those areas. Therefore, we cannot assure you that we can execute successfully our contemplated expansion plan or that we will succeed in effectively integrating our expanded operations, or that our expanded operations will generate adequate returns on our investments or positive operating cash flows. Furthermore, our business expansion may place a substantial strain on our managerial and financial resources and any failure in effectively managing our expanded operations may materially and adversely affect our business and prospects, results of operations and financial condition.

We may not be able to effectively expand into the hotel operation, redevelopment and development business

We intend to enter into the hotel development and redevelopment business. In May 2009, we acquired Keyu Golden Bay Resort located in Longgang District, Shenzhen and currently operate the hotel through Leisure Land. We intend to redevelop Keyu Golden Bay Resort to further enhance its attraction to individual and corporate customers and make it more marketable. In addition, we intend to develop three hotels in Chengdu, Huizhou and Jiangyin, respectively. We plan to engage hotel management companies to manage the hotels upon the completion of their construction. We cannot assure you that we will be able to leverage our past experience as we expand into the hotel operation and development business, nor can we assure you that we will be able to procure the services of professional hotel management companies for the hotels in Chengdu, Huizhou and Jiangyin. We may be exposed to considerable reputational and financial risks if the hotels are mismanaged or do not meet the expectations of hotel customers. In addition, there can be no assurance that there will be sufficient demand for hotel facilities in these locations. If we fail in our efforts in our hotel operation and development business, it may have a material adverse effect on our reputation generally, and our business and prospects results of operations and financial condition may be materially and adversely affected.

The fair value of our investment properties is likely to fluctuate from time to time and may decrease significantly in the future, which may materially and adversely impact our profitability

We are required to reassess the fair value of our investment properties at every balance sheet date for which we issue financial statements. In accordance with HKFRS, gains or losses (as applicable) arising from changes in the fair value of our investment properties should be accounted for in our income statements in the period in which they arise. Our investment properties were revalued by an independent property valuer as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively,

RISK FACTORS

on an open market for existing use basis which reflected market conditions at those dates. Based on such valuation, we recognized the aggregate fair market value of our investment properties on our consolidated balance sheets, and recognized changes in fair values of investment properties and the relevant deferred tax on our consolidated statements of comprehensive incomes. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009, the fair value gains on our investment properties, net of deferred tax, were RMB173.8 million, RMB27.4 million, RMB226.9 million, RMB431.5 million and RMB211.0 million, respectively, and accounted for approximately 35.2%, 5.7%, 45.3%, 68.2% and 57.4%, respectively, of our profit for the respective time periods.

Fair value gains or losses do not, however, change our cash position as long as the relevant investment properties are held by us, and accordingly do not increase our liquidity in spite of the increased profit represented by any fair value gains. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. Macroeconomic factors, including economic growth rate, interest rate, inflation rate, urbanization rate and disposable income level, in addition to any government regulations, can substantially affect the fair value of our investment properties and affect the supply and demand in the PRC property market. All these factors are beyond our control and we cannot assure you that changes in market conditions will continue to create fair value gains on our investment properties at the historical levels, or at all, or that the fair value of our investment properties will not decrease in the future. For example, fair value of our investment properties decreased in the second half of 2008, as a result of which fair value gains on our investment properties were RMB302.6 million for 2008, even though fair value gains on our investment properties for the first half of 2008 were RMB575.4 million. In particular, the fair value of our investment properties could decline, and a decrease in the fair value of our investment properties would materially and adversely affect our profitability. See the section entitled “Summary — Profit Forecast For the Year Ending December 31, 2009 — Sensitivity Analysis” in this document.

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

We pre-sell properties before construction is completed. The purchasers of our properties may need mortgage loans to purchase our properties, and we typically arrange for various banks to provide these mortgage loans. In accordance with market practice, the mortgagee banks require us to guarantee our customers’ mortgage loans. Typically, our guarantee obligations for such customers’ mortgage loans are released upon the earlier of (i) the satisfaction of the mortgage loan by the purchaser of the property; and (ii) the issuance of the property ownership certificate for the mortgaged property. It generally takes place six months to one year after we deliver possession of the relevant property to the purchaser. If a purchaser defaults on a mortgage loan while our guarantee is in effect we may have to repay the mortgage loan. If we fail to do so, the mortgagee bank may auction the underlying property and recover any additional amount outstanding from us as the guarantor of the defaulted mortgage loan. In line with industry practice, we rely on the credit analysis performed by the mortgagee banks in respect of individual customers and we do not conduct any independent credit checks on them.

As of December 31, 2006, 2007 and 2008 and six months ended June 30, 2009, our outstanding guarantees for the mortgage loans of our customers amounted to RMB1,267.5 million, RMB873.9 million, RMB1,629.0 million and RMB2,444.1 million, respectively. During the Track Record Period, we have not experienced any instances where we had to honor our guarantee obligations as a result of a

RISK FACTORS

failure by our customers to repay their mortgage loans. However, if any material default occurs and we are called upon to honor our guarantees, our results of operations and financial position will be materially and adversely affected.

We may suffer losses from certain financing arrangements we entered into, under which we guaranteed an annual return for a period of 10 years

In 2005, we sold 1,804 retail units in Phase 6 of the Woodland Height project to a number of independent third-party purchasers, who hold put options under the relevant sale and purchase agreements. We also entered into a cooperation agreement with each purchaser of the relevant retail units, under which each purchaser agreed to entrust us to provide leasing management services for 10 years from 2005 to 2015 and we guaranteed to such purchaser an annual return of 8% on the purchase price of these units for the same period. See the section entitled “Financial Information — Indebtedness — Borrowings” in this document. We entered into these financing arrangements for the purpose of increasing our cash inflows in 2005 by selling the units, while we retained the right to manage these units which we expect to have long-term growth potential for leasing. The rental income we received from these retail units, however, had not covered our payment at the guaranteed 8% annual rate of return to the purchasers of these units during the Track Record Period. Our rental income derived from leasing these retail units were RMB6.0 million in 2006, RMB8.3 million in 2007, RMB10.5 million in 2008 and RMB5.7 million in the six months ended June 30, 2009. A finance cost of RMB21.9 million, RMB21.8 million, RMB21.8 million and RMB10.9 million has been charged to our income statement in 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively, as a result of our payment of the guaranteed 8% annual rate of return. Unless a purchaser exercises his or her put option during the option period from December 31, 2009 to March 1, 2010, we will continue to be obligated to pay at the guaranteed 8% annual rate of return for the remaining term of each relevant cooperation agreement. As of September 30, 2009, all of the retail units were rented. If the rental income derived from these units continues to be less than the aggregate amount of the guaranteed 8% annual rate of return, we may continue to suffer losses from these arrangements, which in turn may have a material and adverse effect on our results of operations, cash flow, prospects and financial conditions.

We may suffer certain losses not covered by insurance

We do not carry comprehensive insurance against all potential losses or damage with respect to our properties before their delivery to customers nor do we maintain insurance coverage against liability from tortious acts, property damage or personal injury relating to the construction and maintenance of our properties. Although we expect our third-party construction companies to maintain appropriate insurance coverage, we cannot assure you that their insurance would respond to or be sufficient to satisfy all claims, or that we would not be sued or held liable for notwithstanding their insurance coverage. Moreover, there are certain losses for which insurance is not available on commercially practicable terms in China, such as losses suffered due to earthquake, typhoon, flooding, war and civil disorder. If we suffer from any losses, damages or liabilities in the course of our business, we may not have sufficient financial resources to offset such losses, damages or liabilities or to satisfy our related obligations. Any payment we make to cover any losses, damages or liabilities may have a material and adverse effect on our business, results of operations and financial condition.

RISK FACTORS

We may not be able to complete our development projects according to schedule or on budget

A property development project requires substantial capital expenditures prior to and during the construction period, and it may take over a year before a development generates positive cash flow through pre-sales or sales. In particular, we expect that most of our estimated profit for the year ending December 31, 2009 to be attributable to completion and sales of our properties to be achieved before the end of the year. According to our historical sales statistics, as of November 18, 2009, we had achieved contracted sales of RMB6,069.5 million to be recognized as our revenue in or after the year ending December 31, 2009, including RMB2,404.8 million which was recognized as our revenue in the six months ended June 30, 2009. The progress of, and costs for, a development project can be adversely affected by many factors, including:

- changes in market conditions, an economic downturn or a decline in consumer confidence;
- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- relocation of existing residents and demolition of existing structures;
- increases in the market prices of raw materials if we cannot pass on the increased costs to customers;
- shortages of materials, equipment, contractors and skilled labor;
- latent soil or subsurface conditions and latent environmental damage requiring remediation;
- unforeseen engineering, design, environmental or geographic problems;
- labor disputes;
- construction accidents;
- natural disasters;
- adverse weather conditions;
- changes in government practices and policies, including reclamation of land for public works or facilities; and
- other unforeseen problems or circumstances.

Our property projects are at risk from earthquakes, floods and other natural disasters in the regions where we operate. Damage to any of our properties or impact on the markets, whether by natural disasters or otherwise, may either delay or preclude our ability to develop and sell our properties or adversely affect our budget for the effected projects. During the Track Record Period, we had not experienced any significant delays in completion or delivery of our projects. However, the earthquake in Sichuan Province on May 12, 2008 has affected the development schedule for Chengdu Shangmao Garden, and the recent global economic slowdown has affected the development schedules of some of our projects under development and projects held for future development in 2008. See "— The recent

RISK FACTORS

global economic slowdown, crisis in the global financial markets and volatility of the property prices have negatively impacted, and may continue to negatively impact, our profitability, business and our ability to obtain necessary financing for our operations" and "— The national and regional economies in China and our business may be adversely affected by natural disasters or other catastrophic events." We may also experience additional or significant delays in completion or delivery of our projects or we may be subject to liability for any such delays. Construction delays or failure to complete construction of a project according to its planned specifications, schedule or budget may materially and adversely affect our reputation, business, results of operations and financial condition.

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

Changes in interest rates have affected and will continue to affect our financing costs and, ultimately, our results of operations. In April 2006, the PBOC raised the benchmark one-year lending rate from 5.58% to 5.85% and in August 2006 further increased such rate to 6.12%. The PBOC again increased the one-year lending rate six times in 2007 from 6.12% to 7.47% in December 2007. Beginning in 2008, the PBOC decreased the benchmark one-year lending rate five times, from 7.47% to 5.31% in December 2008, which has remained unchanged as of the Latest Practicable Date. As commercial banks in China link the interest rates on their loans to benchmark lending rates published by the PBOC, any increase in such benchmark lending rates will increase the interest costs for our developments.

We have incurred a significant amount of interest expense in relation to the financing. A substantial portion of the interest expense has been capitalized as properties under development, which will then be recognized in the consolidated statements of comprehensive income as cost of sales upon the sale of properties. As a result, such capitalized interest expense may adversely affect our gross profit margin upon the sales of properties in future.

In addition, increases in interest rates may affect our customers' ability to secure mortgages on acceptable terms, which in turn may affect their ability to purchase our properties.

The national and regional economies in China and our business may be adversely affected by natural disasters or other catastrophic events

Certain regions in China, including the cities where we operate, are susceptible to natural disasters such as earthquakes or floods. On May 12, 2008, an earthquake measuring 8.0 degrees on the Richter scale occurred in Sichuan Province. All of our three property projects in Sichuan Province are located in Chengdu, approximately 159 kilometers from the earthquake's epicenter in Wenchuan County, Sichuan Province. Each project was held for future development when the earthquake occurred, and no construction had begun on the relevant sites. Based on our investigation and site inspections, our properties in Sichuan Province did not suffer any material damage or loss as a result of the earthquake. However, the earthquake adversely affected our ability to complete and sell or lease our properties in Chengdu as scheduled. In particular, as a consequence of the earthquake, we delayed the development schedule for Chengdu Shangmao Garden and postponed the pre-sale of the project, which was originally scheduled in November 2008.

We have entered into an agreement to jointly renovate and develop a parcel of land located in Pi County, Sichuan Province, with other parties. The renovation works were completed in December 2007 and the Pi County Land Resources Center (郫縣土地儲備中心), a party to the agreement. See the

RISK FACTORS

section entitled “Business — Other Contractual Arrangements — Contractual arrangements relating to cooperative or joint development — (20) A primary land development contract” in this document. This parcel of land is approximately 116 kilometers from the earthquake’s epicenter in Wenchuan County, Sichuan Province. As a result of the earthquake, the public auction for the land use rights has been delayed, and was held and completed in October 2009. Such delay has affected our ability to receive our expected return on the investment in a timely manner.

Natural disasters or other catastrophic events, such as earthquakes, floods or severe weather conditions affecting China, particularly the regions where we operate, could, depending upon their magnitude, significantly disrupt our business operations or cause a material economic downturn in the affected area, which in turn could materially and adversely affect our business, results of operations and financial condition.

The appraised value of our properties in Property Valuation Report may be different from the actual realizable value and is subject to change

The Property Valuation Report prepared by Savills Valuation and Professional Services Limited is included in Appendix IV to this document. The valuations in the report are based on multiple assumptions which by their nature are subjective and uncertain. Therefore, the appraised values of our properties should not be taken as their actual realizable value or a forecast of their realizable value. Unforeseeable changes in a particular project or in national or local economic conditions or other relevant factors may affect the value of our properties.

The assumptions, on which the appraised value of our properties and land reserves is based, include that:

- we will complete development projects on time;
- we have obtained or will obtain on a timely basis all licenses, certificates, permits and approvals from relevant authorities necessary for the development of the projects; and
- we have paid all the land premiums and demolition and resettlement costs and obtained all land use rights certificates and transferable land use rights without any payment obligation of additional land premium and demolition and resettlement costs.

As for properties which we do not wholly own, their appraised values are allocated to us according to our pro rata ownership in the relevant project companies. If any of the assumptions proves to be incorrect and/or the actual realizable value of any of our properties is significantly lower than its appraised value, our business, results of operations and financial position may be materially and adversely affected.

The Property Valuation Report also made reference to the land under the section entitled “Group VII — Property interests to be acquired by the Group in the PRC” that we, by September 30, 2009, had entered into agreements with relevant owners of the properties or government authorities, but had not made full payment of the land premiums or satisfied other conditions for obtaining the relevant land use rights certificates. As a result, we are not in possession of the land use rights certificates with respect to these properties as of the date of this document. In accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors, the PRC properties without land use rights

RISK FACTORS

certificates may not be assigned any commercial value for purposes of issuing any property valuation report in connection with a listing on the Stock Exchange. You should not unduly rely on the estimated value of the relevant parcels of land of which the property interests are to be acquired by us as disclosed in the Property Valuation Report because the issuance by the government of the relevant land use rights certificates depends on our timely payment of the requisite land premiums as well as many other conditions beyond our control.

We may have to compensate our customers if we fail to meet all requirements for the delivery of completed properties and the issuance of property ownership certificates

According to the relevant PRC law, property developers must meet various requirements as stated below within 90 days after delivery of property or such other time period that may be provided in the relevant sales and purchase agreement to assist a purchaser in obtaining the individual property ownership certificate. We generally elect to specify the deadline to apply for an individual property ownership certificate in the sales and purchase agreement to allow sufficient time for the application and approval process. Within three months of the date of the completion certificate for a development, we must apply for a general property ownership certificate for the entire development. This involves, among other things, the submission of a number of documents, including land use rights documents, planning approvals and construction permits. Following the effective date of a sales and purchase agreement for one or more units in a development, we then assist the purchaser to apply for an individual property ownership certificate for each unit. This involves submission of other documents, including the sales and purchase agreement, identification documentation for the purchaser, evidence of payment of deed tax and a copy of the general property ownership certificate issued to us. Delay by a purchaser in providing the documents relating to the purchaser, or delay by the various administrative authorities in reviewing the relevant application document, as well as other factors beyond our control, may affect timely delivery of the relevant individual property ownership certificate. Under current PRC laws and regulations and under our sales and purchase agreements, we are required to compensate our customers for delays in delivery caused by us of individual property ownership certificates. During the Track Record Period, we had not paid any compensation for delays in delivery of individual property ownership certificates. However, we cannot assure you that delays in delivery caused by us of the required property ownership certificates will not occur. Significant delays with respect to one or more of our developments may materially and adversely affect our reputation, business, results of operations and financial condition.

The PRC Government may impose fines on us or take back our land if we fail to develop a property according to the terms of the land grant contract

Under PRC laws and regulations, if we fail to develop a property according to the terms of the land grant contract, including those relating to the payment of land premium, demolition and resettlement costs and other fees, the specified use of the land and the time for commencement and completion of the development, the PRC Government may issue a warning, impose a penalty, and/or take back our land. Under current PRC laws and regulations, if we fail to pay any outstanding land grant premium on time, we may be subject to a late payment penalty of 0.1% of the outstanding balance for every day of delay in payment. In addition, the PRC government may impose an idle land fee equal to 20% of the land premium or allocation fees if (i) we do not commence construction for more than one year after the date specified in the relevant land grant contract, (ii) total constructed GFA is less than one-third of the total proposed GFA for the development, or (iii) the capital invested in the development

RISK FACTORS

is less than one-fourth of the total investment approved for the development and the development is suspended for more than one year without governmental approval. Furthermore, the PRC government has the authority to take back the land without compensation to us, if we do not commence construction for more than two years after the date specified in the land grant contract, unless the delay is caused by force majeure or governmental action.

During the Track Record Period, two of our projects, the Dijingwan and the Zhongyang Haomen, were subject to late payments in respect of idle land. The late payments in both cases were due to the failure to commence development by our third-party joint developers, who held the respective land use rights certificates, before we entered into cooperative arrangements with them. The late payment in respect of idle land for the Dijingwan project of approximately RMB4.6 million was fully paid on June 19, 2007, and the late payment in respect of idle land for Zhongyang Haomen of approximately RMB5.4 million was fully paid on September 14, 2006. During the Track Record Period and through the Latest Practicable Date, we have not received any other warning regarding idle land or paid any penalties for the late payment of land premium or in respect of idle land, and none of our land has been taken back by the government as a result of being idle for two years. However, we cannot assure you that there will be no significant delays in the commencement of construction or the development of our properties in the future, or that our developments will not be subject to idle land penalties or be taken back by the government as a result of such delays. The imposition of substantial idle land penalties could have a material and adverse affect on our business, results of operations and financial condition. If any of our land is taken back by the government, we would not only lose the opportunity to develop the property, but we would also lose our prior investments in the development, including land premiums paid and costs incurred prior to the date on which the land is taken back.

Our acquisition of companies holding land use rights may be unsuccessful and our acquisition agreements may not provide us with sufficient protection against potential liability

We intend to continue to acquire the controlling equity interests in companies holding land use rights as a means of expanding our business and land bank. However, we may face strong competition during the acquisition process and we may not be successful in selecting or valuing target companies or their land appropriately. As a result, we may be unable to complete such acquisitions at reasonable cost, or at all. Even if an acquisition is successful, we may have to allocate additional capital and human resources to integrate the acquired business into our operations. We also cannot assure you that the integration of any acquired company will be successfully completed within a reasonable period of time, or at all, or that it will generate the economic benefit that we expected.

We may be required to relocate existing residents and pay demolition and resettlement costs associated with our future property developments and such costs may increase

We may be required to undertake and pay for demolition of existing buildings and resettlement of existing residents with respect to some of our property developments in accordance with the relevant PRC laws and regulations. We have entered into certain contractual arrangements involving demolition and resettlement works. In particular, we have entered into certain contractual arrangements relating to redevelopment and primary land development with a view to facilitating potential acquisitions of land use rights or enhancing our future expansion into the relevant markets. See the section entitled "Business — Other Contractual Arrangements" in this document. In the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our demolition and resettlement costs

RISK FACTORS

were approximately RMB1.9 million, RMB107.1 million, RMB9.6 million and RMB10.9 million, respectively. The compensation we pay for resettlement is calculated in accordance with certain formulas published by the relevant local authorities. These formulas take into account the location, GFA and the type of building to be demolished, local income levels and many other factors. There can be no assurance that local authorities will not change or adjust their formulas without prior notice. Existing owners or residents may disagree with the compensation arrangements or refuse to relocate. The administrative process to settle the amount of compensation, together with any appeals, or a refusal to relocate may significantly delay the timetable for the affected development. For example, for certain contractual arrangements relating to redevelopments, we have been in resettlement compensation negotiations with the existing residents for over five years, and as of the Latest Practicable Date, such negotiations had not been completed. Although we took into consideration the difficulties in resettlement compensation negotiations before we entered into these contractual arrangements, the protracted resettlement process may cause delays in the redevelopment projects, and adversely affect our plans to obtain the relevant land use rights or enter into the new markets. In addition, there is no assurance that we will be able to reach agreements for compensation and resettlement for these redevelopment projects on terms satisfactory to us or at all. Moreover, an unfavorable final determination or settlement regarding the amount of compensation payable by us may increase the cost of the development and materially and adversely affect our cash flow, business, results of operations and financial condition.

A deterioration in our brand image could adversely affect our business

We rely to a significant extent on our brand name and brand image, “Kaisa” (“佳兆業”). Any negative incident or negative publicity concerning us or our properties developments could adversely affect our reputation and business. In addition, although we are a well-known brand in the Pearl River Delta Region, we are less well known in other regions in China. Brand value is based largely on subjective consumer perceptions and can be damaged even by isolated incidents that degrade consumer trust. Consumer demand for our products and our brand value could diminish significantly if we fail to preserve the quality of our products, or fail to deliver a consistently positive consumer experience in each of our complexes, or if we are perceived to act in an unethical or socially irresponsible manner.

In addition, our efforts to protect our brand name may not be adequate, and we may be unable to identify any unauthorized use of our brand name or to take appropriate steps to enforce our rights on a timely basis. Currently, we have 90 trademark applications pending in the PRC. We applied for the registration of these 90 trademarks in May 2007. As advised by our PRC legal adviser, the registration process generally takes approximately 12 to 18 months, and a period of 24 months is usually needed before trademark registration certificates will be issued. In August 2009, six of our trademark applications were registered, and additional eight of our trademark applications received preliminary approvals and were published in the PRC Trademark Gazette. If no opposition against our applied trademarks is filed within three months after publication, the application will be deemed registered. Our other trademark applications were still under the review of the PRC Trademark Office as of the Latest Practicable Date. In addition, we have registered two trademarks covering our logo in Hong Kong. We are not aware of any material unauthorized use of our brand name or logo or other forms of our brand image. According to our PRC legal adviser, while the relevant trademark applications are pending, we may limit unauthorized third-party use of those trademarks under the PRC Anti-Unfair Competition Law (中華人民共和國反不正當競爭法). However, the protection under the PRC Anti-Unfair Competition Law is more limited than the protection available for registered trademarks. Our brand could be misappropriated or misused in the future. If the registration of our brand name “佳兆業” and the

RISK FACTORS

relevant trademarks in the PRC cannot be completed, we will not be able to have adequate protection against unauthorized use or infringement of our brand name committed by any third parties. Any unauthorized use or infringement of our brand name may impair the value we have built in our brand name, damage our reputation and materially and adversely affect our business and results of operations.

Our success depends on the continued services of our senior management team

Our success and growth depend on Mr. Kwok Ying Shing, our founder and chairman and the continued services provided by our executive Directors and other members of our senior management team. They have extensive experience in the PRC real estate industry, and in-depth knowledge of various aspects of property development, strategic planning and business management. We cannot assure you that any executive Director or member of senior management is willing or able to continue in his or her present position or that we will be able to find and hire a suitable replacement, or if he or she is recruited by a competitor or departs to start a competing business. Moreover, along with our steady growth and expansion into other regional markets in China, we will need to employ, train and retain additional suitable skilled and qualified management and employees from a wider geographical area. If we cannot attract and retain suitable personnel, our business and future growth may be materially and adversely affected.

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

We provide property management services to the owners of our developed residential and commercial projects through our wholly owned property management subsidiaries. We believe that property management is an important part of our business strategy and is critical to the successful marketing and promotion of our property developments. Under PRC laws and regulations, a majority of property owners of a residential community of certain size have the right to change the property management service provider. We had not experienced any termination of our property management services by the owners of our developed properties during the Track Record Period. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the revenue derived from our property management services was RMB3.7 million, RMB11.1 million, RMB40.3 million and RMB26.2 million, respectively. If the owners of a residential property that we have developed, however, choose to terminate our property management services, or our customers are unsatisfied with our property management services, our reputation may be materially and adversely affected.

We may be involved from time to time in disputes, administrative, legal and other proceedings arising out of our operations and may face significant liabilities as a result

We may be involved in disputes with various parties involved in the construction, development and the sale of our properties, including contractors, suppliers, construction workers, original owners and residents, partners and purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to our reputation, incurrence of substantial costs and the diversion of resources and management's attention. As most of our projects are comprised of multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the relevant project is perceived to be inconsistent with our representations and warranties made to such earlier purchasers. These disputes and legal and other proceedings may

RISK FACTORS

materially and adversely affect our reputation and our business, results of operations and financial condition. See the section entitled “Business — Legal Proceedings and Material Claims” in this document.

In addition, we may have compliance issues with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in liabilities and cause delays to our property developments. If we fail to comply with any applicable PRC laws or regulations, our reputation and our business, results of operations and financial condition may be materially and adversely affected. See the section entitled “Business — Compliance with Relevant PRC Regulations and Requirements” in this document.

We are subject to legal and business risks and our business may be adversely affected if we fail to obtain or maintain the required qualification certificates and other requisite government approvals

A PRC property developer must hold a valid qualification certificate to develop property. In addition, at various stages of project development, the PRC property developer must also obtain various licenses, certificates, permits, and approvals from the relevant PRC administrative authorities, including land use rights certificates, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion.

According to the Provisions on Administration of Qualifications of Real Estate Developers (房地產開發企業資質管理規定) issued by the Ministry of Construction, a newly established property developer must first apply for a provisional qualification certificate with a one-year validity, which can be renewed annually for not more than two consecutive years. If, however, the newly established property developer fails to commence a property development project within the one-year period following the provisional qualification certificate, it will not be allowed to extend the term of its provisional qualification certificate. Developers with longer operating histories must submit their qualification certificates to relevant construction administration authorities for review annually. Government regulations require developers to fulfill all statutory requirements before they may obtain or renew their qualification certificates.

We conduct our property developments through project companies. These project companies must hold valid qualification certificates to be able to conduct their businesses. We cannot assure you that our project companies will continue to be able to obtain or renew the necessary qualification certificates in a timely manner, or at all. If any of our project companies does not obtain or renew the necessary qualification certificate in a timely manner, or at all, our prospects, and our business, results of operations and financial condition may be materially and adversely affected.

Pursuant to the Measures for the Administration of Qualifications of Property Service Enterprises (物業服務企業資質管理辦法), entities engaged in property management are required to obtain qualification certificates before they commence their business operations. Our wholly owned property management subsidiaries are primarily engaged to manage the residential and commercial properties we developed. If any property management companies are unable to meet the relevant requirements and therefore unable to obtain or maintain the qualification certificates, our business and financial condition could be materially and adversely affected.

RISK FACTORS

In addition to the above, we cannot assure you that we will not encounter significant problems in satisfying the conditions to or delays in the issuance of other necessary licenses, certificates, permits or approvals. There may also be delays on the part of the administrative bodies in reviewing and processing our applications and granting licenses, certificates, permits or approvals. If we fail to obtain the necessary governmental licenses, certificates, permits or approvals for any of our major property projects, or a delay occurs in the government's examination and review process, our development schedule and our sales could be substantially delayed, resulting in a material and adverse effect on our business, results of operations and financial condition.

We may need to alter our sales model if the cooperation between us and Centaline is discontinued

We cooperate with Centaline, our primary sales partner specializing in agency sales for residential and commercial properties, to jointly promote our properties across different regional markets in China. We began cooperating with Centaline in 2000. We generally enter into one-year non-exclusive sales agency agreements with respect to Centaline's sales agency services in mainland China, and one-year exclusive sales agency agreements with respect to Centaline's sales agency services in Hong Kong, both on a project-by-project basis. Under these agreements, Centaline is generally entitled to a sales commission for sales it concludes upon completion of the sale pursuant to the relevant property purchase contract. Our arrangements with Centaline has always been and will continue to be dependent upon the demand for the properties we develop in the relevant local markets. During the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, Centaline's agency sales represented approximately 68.4%, 48.9%, 74.6% and 71.5%, respectively of our total property sales proceeds. If we or Centaline discontinue or significantly limit our cooperation, terminate our sales agency agreements, or decide not to enter into new agreements upon expiration of our existing sales agency agreements, our sales may be interrupted. As a result, our business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO THE REAL ESTATE INDUSTRY IN CHINA

Our operations are subject to extensive governmental regulations, and the PRC Government may introduce further measures to curtail growth in the property sector

The real estate industry in China is heavily regulated by the PRC Government. We must comply with various PRC policies, laws and regulations, as well as the practices and procedures of various local authorities. The PRC Government exerts considerable direct and indirect influence on the development of the PRC real estate industry by imposing industry policies and other economic measures such as control of the credit market, taxation and foreign investment. In particular, these measures include raising benchmark interest rates of commercial banks and individual property purchasers, placing additional limitations on the ability of commercial banks to make loans to property developers, imposing additional taxes and levies on property sales and restricting foreign investment in the PRC property sector. Many of the real estate industry policies implemented by the PRC Government are unprecedented and are expected to be refined and adjusted over time. Political, economic and social factors may also lead to further policy adjustments. This refining and adjustment process may not necessarily have a positive effect on our operations and our future business development.

RISK FACTORS

Along with general economic growth in China, investments in the property sector have increased significantly in the past few years. In response to concerns over the scale of the increase in property investments, and in light of increasing speculation in the property market, the PRC Government has introduced policies and regulations to control the growth of the property sector, these policies and regulations, among others, include the following:

- requiring real estate developers to finance 20% of the total projected capital outlay of a government subsidized housing project or an ordinary commodity housing project with internal funding 30% of the total projected capital outlay of other property projects with internal funding;
- limiting the monthly mortgage payment to 50% of an individual borrower's monthly income and limiting all monthly debt service payments of an individual borrower to 55% of his or her monthly income;
- imposing a turnover or business tax on certain secondary sales of property, and requiring the tax to be collected as a condition to the transfer of the relevant property ownership certificate;
- suspending land supply for villa construction and restricting land supply for high-end residential property developments;
- requiring that at least 70% of the land supply approved by any local government for residential property development during any given year must be used for developing low- to medium-cost and small- to medium-sized units for sale, or low-cost rental units;
- requiring that at least 70% of the total development and construction area of any residential project approved or constructed on or after June 1, 2006 must consist of units with a unit floor area of less than 90 sq.m., and that any residential project approved prior to June 1, 2006 but as to which no construction permit had been issued by that date must be reconfigured to comply with this new requirement (except in special circumstances, as approved by the Ministry of Construction, for certain projects in municipalities directly administered by the PRC central government, provincial capitals and certain other cities);
- restricting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land or vacant properties;
- removing foreign investment in the ordinary residential development sector from the encouraged category, and restricting foreign investment in a number of other property sectors, including development of tracts of land through Sino-foreign joint ventures, construction and operation of high-end hotels, villas, high-end office buildings and international convention and exhibition centers, and the real estate agency business;
- requiring various localities to set up new land reserve institutions to control primary development of land through public tender for the relevant primary development work, and to control generally the use of the relevant local land and payments relating both to primary development work and land premiums; and

RISK FACTORS

- prohibiting PRC commercial banks from granting loans to property developers who hold the land that has been idle for two years or more.

For more information, see “Summary of the Principal Legal and Regulatory Provisions” in Appendix V to this document. The various restrictive measures taken by the PRC Government with an aim to control the growth of the property sector may limit our access to capital and reduce market demand, and in adapting to these measures our operating costs may also increase. On October 22, 2008, the PBOC promulgated the Notice on Several Issues Regarding the Expansion of Downward Floating Interest Rate for Individual Commercial Housing Loans (關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知). In December 2008, the General Office of the State Council issued the Opinion on Promoting the Healthy Development of Real Estate Market (國務院辦公廳關於促進房地產市場健康發展的若干意見). Although these two regulations encouraged the purchase of individual housing, we cannot assure you that the PRC Government will not introduce additional or more stringent measures to regulate the growth of the property sector in China. If we fail to adapt our operations to new policies and regulations that may come into effect from time to time with respect to the PRC real estate industry, or if such policy or regulatory changes disrupt our business or cause us to incur additional costs, our business, results of operations and financial condition may be materially and adversely affected.

The property industry in China is still at a relatively early stage of development, and there is a significant degree of uncertainty in the market as a whole

Private ownership of property in China is still at a relatively early stage of development. Demand for private residential property has been increasing rapidly in recent years. However, increased demand has often been coupled with volatile market conditions and fluctuations in prices. Numerous factors may affect the development of the market and accordingly, it is very difficult to predict when and how much demand will develop. Limited availability of accurate financial and market information and the general low level of transparency in China contribute to overall uncertainty. Investors may be discouraged from acquiring new properties due to the lack of a liquid secondary market for residential properties. In addition, the limited amounts and types of mortgage financing available to individuals, together with the lack of long-term security of legal title and enforceability of property rights, may also inhibit demand for residential property. Finally, the risk of over-supply is increasing in parts of China where property investment, trading and speculation have become more active. If as a result of any one or more of these or similar factors, demand for residential property or market prices decline significantly, our business, results of operations and financial condition may be materially and adversely affected.

Oversupply of properties could drive prices down and adversely affect our business

The PRC property market can be volatile, characterized by oversupply and price fluctuations. Macro-economic measures have recently been adopted by the PRC government in an attempt to slow the rapid growth of the PRC’s economy and deter investment in fixed assets, including real estate assets. We cannot assure you that there will not be an oversupply of property. If there is an oversupply of property or a decline or stagnation in average property prices in our markets, our business, results of operations and financial condition could be materially and adversely affected.

RISK FACTORS

Changes of PRC laws and regulations with respect to pre-sales may adversely affect our business

We depend on cash flows from pre-sales of properties as an important source of funding for our property developments. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sales the relevant properties and pre-sales proceeds may only be used to finance the related development. In August 2005, the PBOC issued a report titled “2004 Real Estate Financing Report,” in which it recommended discontinuing the practice of pre-selling uncompleted properties because it creates significant market risks and creates transactional irregularities. This PBOC recommendation has not been adopted by any PRC government authorities. However, there can be no assurance that the PRC Government will not adopt this recommendation or ban or impose additional restrictions on pre-sales. Any ban or additional restrictions on pre-sales may require us to seek alternative sources of funding to finance our developments, and if sufficient alternative funding is not available to use on attractive terms, or at all, our cash flow and prospects, and our business, results of operations and financial condition could be materially and adversely affected.

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

We make certain undertakings in our pre-sale contracts. Our pre-sale contracts and PRC laws and regulations provide for remedies for breach of these undertakings. For example, if we pre-sell units in a property development and we fail to complete that development, we will be liable to the purchasers for their losses. If we fail to complete a pre-sold property on time, our purchasers may claim compensation for late delivery pursuant to either their contracts with us or relevant PRC laws and regulations. If our delay extends beyond a specified period, our purchasers may terminate their pre-sale contracts and claim for compensation. A purchaser may also terminate his or her contract with us if the GFA of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3% from the GFA of that unit set out in his or her contract. We cannot assure you that we will not experience delays in the completion and delivery of our projects, or that the GFA for a delivered unit may deviate more than 3% from the GFA set out in the relevant contract. If these or other similar circumstances arise and result in a termination of contracts with purchasers or exposure to liability for losses or compensatory damages, our reputation and, as a consequence, our business, results of operations and financial condition may be materially and adversely affected.

The total GFA of some of our developments may exceed the original permitted GFA and the excess GFA is subject to governmental approval and payment of additional land premium

The permitted total GFA for a particular development is set out in various governmental documents issued at various stages. In many cases, the underlying land grant contract will specify permitted total GFA. Total GFA is also set out in the relevant urban planning approvals and various construction permits. If constructed total GFA exceeds the permitted total, or if the completed development contains built-up areas that the authorities believe do not conform to the plans submitted and approved in connection with the construction works planning permit, we may not be able to obtain the acceptance and compliance form of construction completion (竣工验收备案表) for the development, and as a consequence, we would not be in a position to deliver individual units to purchasers or to recognize the related pre-sale proceeds as revenue. Moreover, excess GFA requires governmental approval, and the payment by us of additional land premium. We may also be subject to liability to purchasers under our sales and purchase agreements. In the development of our Guangzhou Jinmao, the

RISK FACTORS

constructed total GFA exceeded less than 2% of the permitted total GFA as provided in the construction works planning permit. We have fully settled with the relevant government authority the payment of additional land premium with respect to the excess GFA and obtained the acceptance and compliance form of construction completion for Guangzhou Jinmao. During the Track Record Period, except for Guangzhou Jinmao, our constructed total GFA had not exceeded the permitted total GFA.

We cannot assure you that constructed total GFA for each of our existing projects under development or any future property developments will not exceed permitted total GFA for that development, or that the authorities will not determine that all built-up areas conform to the plans submitted and approved in connection with the construction permit. Moreover, we cannot assure you that we would have sufficient funding to pay any required additional land premium or to pay for any corrective action that may be required in a timely manner, or at all. Any of these circumstances may materially and adversely affect our reputation, and our business, results of operations and financial condition.

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

Mortgage lending is becoming an increasingly important means of financing by property purchases in China. A large number of purchasers of our properties rely on mortgages to finance their purchases. An increase in interest rates may significantly increase the cost of mortgage financing and affect the affordability of residential properties. In addition, the PRC Government and commercial banks may also increase the down payment requirement, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Under current PRC laws and regulations, a purchaser of a residential property generally must pay at least 20% of the purchase price of the property before he or she can finance the remaining balance through a mortgage loan. Since May 2006, the PRC government has increased the minimum down payment to 30% of the purchase price for first-time home owners, if the property has a floor area of 90 sq.m. or more. For second-time home purchasers that use mortgage financing, the minimum down payment has increased to 40% of the purchase price, and the minimum loan interest rate must be at least 10% above the relevant PBOC benchmark interest rate. On October 22, 2008, the PBOC promulgated the Notice on Several Issues Regarding the Expansion of Downward Floating Interest Rate for Individual Commercial Housing Loans (關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知). Pursuant to the notice, the minimum down payment for home purchasers on their first house purchase was reduced to 20% of the purchase price, with the minimum mortgage loan interest rate adjusted to 70% of the relevant PBOC benchmark interest rate. For commercial property purchasers, banks are now not allowed to finance the purchase of any pre-sale properties. The minimum down payment for commercial property purchasers has increased to 50% of the purchase price, and the minimum loan interest rate must be at least 10% above the relevant PBOC benchmark interest rate and the term of the loan may not exceed 10 years. If the availability or attractiveness of mortgage financing is reduced or limited, many of our prospective customers may not be able to purchase our properties and, as a result, our business, liquidity and results of operations could be materially and adversely affected.

In line with industry practice, we provide guarantees to banks for mortgages they offer to our purchasers up until we complete the relevant property and the individual property ownership certificates with respect to the relevant properties are issued to our purchasers and the mortgage registrations for the relevant properties have been completed. If there are changes in laws, regulations, policies and practices

RISK FACTORS

that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and the banks would not accept any alternative guarantees by third parties, or if no third party is available or willing in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks and other financial institutions during sales and pre-sales of our properties. Such difficulties in financing could result in a substantially lower rate of sale and pre-sale of our properties, which would materially and adversely affect our cash flow, financial condition and results of operations.

Intensified competition may adversely affect our business and our financial condition

We face competition from a number of property developers. Our existing and potential competitors include private and public developers in the PRC, as well as developers from Hong Kong. Some of them may have greater marketing, financial, technical or other resources than us and greater economies of scale, broader name recognition and more established relationships in certain markets. Competition among property developers may cause increases in land premiums and raw material costs, shortages in quality construction contractors, surpluses in property supply leading to decreasing property prices, further delays in the issuance of government approvals and permits, and higher costs to attract or retain talented employees. Moreover, residential property markets across China are influenced by various other factors, including changes in policies and regulations, economic conditions, banking practices and consumer sentiment. If we fail to compete effectively, our business operations, financial condition and results of operations could be materially and adversely affected.

Our results of operations may vary significantly from period to period

Our results of operations may vary significantly due to a number of factors, including the timetables of our property development projects, the timing of the sale of properties that we have developed, our revenue recognition policies and any volatility in expenses such as raw material costs. The overall schedules of our property development and the number of properties that we can develop or complete during any particular period are limited as a result of the substantial capital required for the acquisition of land, demolition and resettlement and construction. The sale of properties we develop is subject to general market or economic conditions in the areas where we conduct our business and the level of acceptance of our properties by prospective customers. According to our accounting policy, we recognize revenue upon the completion and delivery of the properties to purchasers, which may typically take six to 12 months after the commencement of the pre-sale. Therefore, in periods in which we pre-sell a large aggregate GFA, we may not generate a correspondingly high level of revenue if the properties pre-sold are not delivered within the same period. In addition, our business depends on obtaining adequate supplies of raw materials and is subject to fluctuation in the market prices of raw materials. The prices that we pay for raw materials may increase due to increased industry demand, inflation, higher fuel and transportation costs and other factors. We will continue to experience significant fluctuations in revenue and profit on an interim basis. We therefore believe that period-to-period comparisons of our operating results may not be as meaningful as they would be for a company with recurring revenue.

Potential liability for environmental damages could result in substantial cost increases

We are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations that apply to any given project development site vary according to the site's location, the site's environmental condition, the present and

RISK FACTORS

former uses of the site and the nature and former uses of adjoining properties. Compliance with environmental laws and regulations may result in delays in development, substantial costs and may prohibit or severely restrict project development activity in environmentally sensitive regions or areas. Under PRC laws and regulations, we are required to submit an environmental impact assessment report to the relevant governmental authorities for approval before commencing construction of any project. Although the environmental audits conducted by the relevant PRC environmental protection agencies to date have not revealed any environmental violations that we believe would have a material adverse effect on our business, results of operations or financial condition, it is possible that there are potential material environmental liabilities of which we are unaware. In addition, our operations could result in environmental liabilities or our contractors could violate environmental laws and regulations in their operations that may be attributed to us. For more information, see the section entitled “Business — Environmental and Safety Matters” in this document.

The construction business and the property development business are subject to claims under statutorily mandated quality warranties

Under Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), all property development companies in the PRC must provide certain quality warranties for the properties they construct or sell. We are required to provide these warranties to our customers. We may sometimes receive quality warranties from third-party contractors we hire to construct our development projects. If a significant number of claims are brought against us under our warranties and if we are unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, or if the retention money retained by us is not sufficient to cover our payment obligations under the quality warranties, we could incur significant expenses to resolve such claims or face delays in correcting the related defects, which could in turn harm our reputation and have a material and adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO CHINA

PRC economic, political and social conditions, as well as governmental policies, could affect our business and prospects

The PRC economy differs from the economies of most of the developed countries in many aspects, including:

- the amount and degree of the PRC Government involvement;
- growth rate and degree of development;
- uniformity in the implementation and enforcement of laws;
- content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

RISK FACTORS

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. In addition, the PRC government continues to pay a significant rate in regulating industries and the economy through policy measures. We cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC Government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC Government has in the past implemented a number of measures intended to slow down certain segments of the economy that the government believed to be overheating, including the real estate industry. These measures have included restricting foreign investment in certain sectors of the real estate industry, raising benchmark interest rates of commercial banks, reducing currency supply and placing additional limitations on the ability of commercial banks to make loans by raising bank reserves against deposits and raising the thresholds and minimum loan interest rates for residential mortgages. These actions, as well as future actions and policies of the PRC Government, could cause a decrease in the overall level of economic activity, and in turn have a material and adverse impact on our business and financial condition.

Governmental control of currency conversion and changes in foreign exchange regulations in China may limit our ability to utilize our revenue and to obtain adequate financing effectively, and may adversely affect the ability of our PRC subsidiaries to pay dividends or other payments to us, or to satisfy their foreign currency denominated obligations

The PRC government imposes controls on the conversion of Renminbi into foreign currencies and, in certain cases, the remittance of foreign exchange out of China. Our businesses are principally conducted in Renminbi, and substantially all of our revenue and operating expenses are denominated in Renminbi. Under our current structure, our income and sources of fund are primarily derived from dividend payments from our PRC subsidiaries.

Our choice of investment is affected by the PRC regulations with respect to capital-account and current-account foreign exchange transactions in China. Under existing PRC foreign exchange regulations, payments of current-account items, including profit distributions, interest payments and operation-related expenditures, may be remitted in foreign currencies without prior approval from the relevant foreign exchange administration authorities by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take further measures in the future to restrict access to foreign currencies for current account transactions. Strict control applies to capital account transactions. Pre-approval or registration is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay for capital expenses. In addition, the transfer of funds between us and our subsidiaries in China is subject to registration with or approval by PRC governmental authorities. For example, any of our loans to our PRC project companies cannot exceed the difference between the total investment amount that our PRC project companies are approved to make under the relevant PRC laws and their respective registered capital, and must be registered with the local branches of the SAFE as a procedural matter. In addition, our capital contributions to our PRC

RISK FACTORS

project companies are subject to registration with local branches of the SAIC or other relevant local authorities. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC project companies or to fund their operations may be negatively affected, which could adversely affect their liquidity and their ability to fund their working capital and expansion projects.

On July 10, 2007, the General Affairs Department of the SAFE issued the Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment that Have Properly Registered with the MOFCOM (關於下發第一批通過商務部備案的外商投資房地產項目名單的通知) (the "SAFE Notice"). The SAFE Notice stipulates, among other things, that the SAFE will no longer process (i) foreign debt registrations or foreign debt applications for settlement of foreign exchange submitted by real estate enterprises with foreign investments that obtained approval certificates from the MOFCOM or its local branches and registered with the MOFCOM on or after June 1, 2007 and (ii) foreign exchange registrations (or change of such registrations) or applications for settlement and sale of foreign exchange under the capital account submitted by real estate enterprises with foreign investments that obtained approval certificates from the MOFCOM or its local branches on or after June 1, 2007 but which did not register with the MOFCOM. As PRC companies cannot repay any loans or interest thereon to persons outside the PRC without first completing foreign debt registration with the SAFE, this new circular effectively prohibits our ability to fund some of our PRC subsidiaries in the form of loans. As advised by our PRC legal adviser, the SAFE Notice also restricts foreign-invested property developers from receiving foreign capital by increasing registered capital, and restricts the ability of foreign entities to establish new foreign invested project companies. If a foreign-invested property developer intends to receive foreign capital by increasing registered capital of the existing foreign-invested company or a foreign entity intends to establish a new foreign-invested project company, such registered capital increase or the establishment of the new company must be duly approved by local branches of the MOFCOM and duly registered with the MOFCOM. Absent such approval and registration, the SAFE will not process foreign exchange registrations (or change of such registrations) or applications for settlement and sale of foreign exchange under the capital account. We must first enter into land grant contracts before we may apply for the establishment of a new foreign-invested company. Alternatively, if we elect to engage in any new real estate project development through an existing foreign-invested project company, we must first apply to the relevant PRC governmental authorities to expand the scope of business or scale of operations of such company. Either way, we must file with the MOFCOM and wait until such filing is complete before we may transfer the proceeds into China for the property developments contemplated in this document. There is no assurance how long this process will take, or whether the investment approval and the MOFCOM filing will be successful. Failure to obtain government approvals and filings or material delays in the approval or filing process will adversely affect our development plans. If a real estate developer fails to obtain the approval from the SAFE to convert Renminbi into foreign exchange for any of the above purposes, its capital expenditure plans, and its business results and financial condition, may be materially and adversely affected.

On June 15, 2008, the MOFCOM issued the Notice on Completing the Registration of Foreign Investment in the Real Estate Sector (關於做好外商投資房地產業備案工作的通知). According to the notice, the MOFCOM entrusts its provincial departments to verify the filing materials of FIREEs. The notice requires that the establishment (including the increase of registered capital) of a FIREE shall comply with the principle of one project company only engaging in one approved real estate project. Furthermore, the SAFE promulgated a circular in August 2008 with respect to the administration of

RISK FACTORS

conversion of foreign exchange capital contribution of foreign invested enterprises into Renminbi. Pursuant to this circular, Renminbi converted from foreign exchange capital contribution can only be used for the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investment or acquisition unless otherwise allowed by PRC laws or regulations. As a result, we may not be able to increase the capital contribution to our project companies or equity investee and subsequently convert such capital contribution into Renminbi for equity investment or acquisition in China. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions and the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other amounts to us, or to satisfy their foreign currency denominated obligations.

Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries

The value of Renminbi depends, to a large extent, on domestic and international economic, financial and political developments and China’s governmental policies, as well as supply and demand in the local and international markets. During the decade ended in 2004, the conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, was based on exchange rates set and published daily by the PBOC in light of the previous day’s inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of Renminbi into the U.S. dollar was largely stable until July 2005. On July 21, 2005, the PBOC revalued Renminbi by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of Renminbi appreciated by more than 2% on that day. Since then, the PBOC has allowed the official Renminbi exchange rate to float against a basket of foreign currencies, and in the past year, the Renminbi has appreciated nearly 10%. The Renminbi exchange rate could fluctuate widely against the U.S. dollar or any other foreign currency in the future. Since our income and profits are denominated in Renminbi, any appreciation of Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Fluctuation of the value of Renminbi will also affect the amount of our foreign debt service in Renminbi terms since we have to convert Renminbi into foreign currencies to service our in foreign currency debt including our debt.

Our income tax obligations may increase, dividends from our PRC subsidiaries may be subject to withholding tax under PRC tax laws and we may be subject to PRC tax under the New Tax Law

In March 2007, the NPC enacted the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “New Tax Law”), which took effect on January 1, 2008. The New Tax Law imposes a unified income tax rate of 25% on all domestic and foreign-invested enterprises unless they qualify under certain limited exceptions. According to the New Tax Law, enterprises that are subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after January 1, 2008. For example, the companies established in Shenzhen Special Economic Zone were subject to PRC enterprise income tax at a rate of 15% before January 1, 2008 and allowed an extension period of five years to phase into the new tax regime until the end of 2012, after which the unified 25% tax rate will be imposed. For the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we paid enterprise income tax of

RISK FACTORS

RMB36.1 million, RMB96.5 million, RMB128.8 million and RMB150.9 million, respectively. Going forward, our income tax obligations may increase significantly as an increasing number of our properties will be developed outside of Shenzhen Special Economic Zone in which we enjoy tax benefits.

We are a holding company that is financially dependent on distributions from our subsidiaries and our business operations are principally conducted through our PRC subsidiaries. Prior to December 31, 2007, dividend payments to foreign investors made by foreign-invested enterprises, such as dividends paid to us by our PRC subsidiaries, were exempt from PRC withholding tax. The New Tax Law and the Regulations for Implementation of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (together with the New Tax Law, the “New Tax Laws”), effective January 1, 2008, provide that any dividend payment to foreign investors will be subject to a withholding tax at a rate of 10%. Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, which in Hong Kong, applies to income derived in any year of assessment commencing on or after April 1, 2007; and in the PRC, in any year commencing on or after January 1, 2007, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% interest in that subsidiary.

In addition, under the New Tax Laws, enterprises established under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The New Tax Laws provide that “de facto management body” of an enterprise is the organization that exercises substantial and overall management and control over the production, employees, books of accounts and properties of the enterprise. If a majority of the members of our management team continue to be located in China, we may be considered a PRC resident enterprise and therefore subject to PRC enterprise income tax at the rate of 25% on our worldwide income. If our PRC subsidiaries become subject to the withholding tax or we otherwise become a PRC resident enterprise under the New Tax Laws, our profitability and cash flow would be materially and adversely affected.

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

Under the New Tax Laws, to the extent such dividends for earnings derived since January 1, 2008 are sourced within China, then PRC income tax at the rate of 10% is applicable to dividends payable by us to investors that are “non-resident enterprises” so long as such “non-resident enterprise” investors do not have an establishment or place of business in China or, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Similarly, any gain realized on the transfer of the Shares by such investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. It is uncertain whether we will be considered a PRC “resident enterprise,” so we are not sure whether the dividends payable to our foreign investors, or the gain our foreign investors may realize from the transfer of our Shares, would be treated as income sourced within China and be subject to PRC tax. If we are required under the new tax law to withhold PRC income tax on our dividends payable to our foreign shareholders who are “non-resident enterprises,” or if you are required to pay PRC income tax on the transfer of our Shares, the value of your investment in our Shares may be

RISK FACTORS

materially adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise,” holders of our Shares might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

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

In October 2005, the SAFE issued the Notice Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) which became effective on November 1, 2005. The notice requires PRC residents, including both legal and natural persons, to register with the local SAFE branch before establishing or controlling any company outside of China (an “offshore special purpose company”) for the purpose of acquiring any assets of or equity interest in a PRC company and raising funds offshore. In addition, any PRC resident who is the shareholder of an offshore special purpose company is required to update its SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in the PRC. Failure to comply with the required SAFE registration and updating requirements described above may result in restrictions being imposed on the foreign exchange activities of the PRC subsidiaries of that offshore special purpose company, including the increase in registered capital, the payment of dividends and other distributions or payments to the offshore special purpose company and capital inflows from the offshore entity. Failure to comply may also subject relevant PRC residents or the PRC subsidiaries of that offshore special purpose company to penalties under PRC foreign exchange administration regulations for evasion of applicable foreign exchange restrictions.

If the SAFE promulgates clarifications or regulations in the future requiring our beneficial owners who are Hong Kong permanent residents to comply with the registration procedures and update requirements described above and if our beneficial owners are unable or fail to comply with such procedures, our beneficial owners may be subject to fines and legal sanctions and our business operations may also be materially and adversely affected, particularly with respect to the ability of our Chinese subsidiaries to remit foreign currency payments out of China.

Interpretation of the PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you

Our core business is conducted in China and is governed by PRC laws and regulations. Our principal operating subsidiaries are located in China and are subject to the PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little if any precedential value and can only be used as a reference. Additionally, PRC written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, because these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a

RISK FACTORS

degree of uncertainty. Depending on the governmental agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

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

Certain regions in China, including the cities where we operate, are susceptible to epidemics such as Severe Acute Respiratory Syndrome, or SARS, and outbreaks of diseases following in the aftermath of earthquakes, floods and other natural disasters. Past occurrences of epidemics, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as influenza A (H1N1) and the H5N1 avian influenza, or an epidemics following the aftermath of a natural disaster, especially in the cities where we have operations, may result in material disruptions to our property development projects, and our sales and marketing, which in turn will materially and adversely affect our financial condition and results of operations.