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

OVERVIEW

We are one of the leading property developers in the Pearl River Delta region, which is one of the most economically dynamic regions in China. "佳兆業" ("Kaisa") is a well-known brand in the Pearl River Delta region. We were ranked among the "Top 10 Valuable Real Estate Brands" in southern China for each of 2006, 2007 and 2008 by the China Real Estate Top 10 Research Team. Headquartered in Shenzhen, the special economic zone adjacent to Hong Kong, we are primarily engaged in the development of large-scale residential properties and integrated commercial properties. We are well recognized in Shenzhen with a proven track record of successfully bringing to market reputable residential properties. In 2008, we were ranked second in the comprehensive annual ranking list of qualified real estate development enterprises in Shenzhen published by the Shenzhen Municipal Committee of Planning and Land Resources (formerly known as the Shenzhen Municipal Bureau of Land Resources and Housing Management). Our well-established position in the Pearl River Delta Region is supported by our geographically diversified development portfolio, including projects in Shenzhen, Guangzhou, Dongguan, Huizhou and Zhuhai. Leveraging our success in the Pearl River Delta region, we have also expanded into other areas in China, including Shanghai and Jiangyin, both in the Yangtze River Delta region, Chengdu in the Chengdu-Chongqing region and Changsha in the Central China region. In July 2009, we completed Jiangyin Lake View Place Phase 1, which became a milestone in our expansion into the Yangtze River Delta region. With our developmental experience and the dedication that we have demonstrated throughout our operational history, we intend to enter into other regions, including the Pan-Bohai Bay Rim. We believe "Kaisa" symbolizes our high quality property developments and high standards of industry practice and encapsulates our devotion to customer satisfaction.

We focus primarily on development of the following:

- *Residential properties.* Our large-scale residential properties are generally located in suburban areas with access to public transport and other urban facilities in select cities in China. These properties include apartments, serviced apartments and townhouses, often with complementary commercial facilities, restaurants and community facilities. The principal target customers for our residential properties are middle to upper-middle income households. We often develop our residential properties in a number of phases. We believe our multi-phased approach has enabled us to manage our capital resources efficiently and has increased our returns through the higher average selling prices which we were generally able to achieve at subsequent development phases.

- *Commercial properties.* Our integrated commercial properties are generally located in CBDs in select cities in China. Since 2005, we have increased the commercial property development in our portfolio. Guangzhou Jinmao, our completed commercial project, is located in a prime location within Guangzhou's CBD and consists of a premium grade office building and retail space. Our other three commercial projects are expected to consist of a mixture of office building and retail space.

As of September 30, 2009, we had a total of 31 property development projects, including completed properties, properties under development and properties for future development, in nine cities in China. As of September 30, 2009, we had completed properties with a total GFA of approximately 2,563,414 sq.m., and had a land bank with an estimated total GFA of approximately 12,457,974 sq.m., including completed properties held for sale with a total GFA of approximately 228,673 sq.m., properties under development with an estimated total GFA of approximately 1,388,764 sq.m. and properties for future development with an estimated total GFA of approximately 10,840,538 sq.m.

During the Track Record Period, our revenue was primarily generated from the sales of our developed properties. In addition, to a lesser extent, our revenue also included rental income, income from property management services and project consultancy services.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue was RMB2,398.7 million, RMB2,239.4 million, RMB3,110.4 million and RMB2,473.7 million, respectively, and the profit attributable to equity holders of our Company for the same period was RMB493.3 million, RMB483.4 million, RMB500.9 million and RMB368.0 million, respectively. Our net profit margin, excluding fair value changes on investment properties and financial derivatives and the corresponding deferred tax, for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 was approximately 13.5%, 21.0%, 8.1% and 7.0%, respectively.

RECENT DEVELOPMENT

On November 3, 2009, we and an independent third party (the "Potential Purchaser") entered into a memorandum of understanding (the "MOU") in relation to a possible disposal (the "Possible Disposal") of our equity interest in Guangzhou Jiasui, the project company for development of Guangzhou Kaisa Plaza. Guangzhou Kaisa Plaza is currently a commercial project under development which has a total GFA of 117,575 sq.m. and is expected to comprise primarily one high-rise office building with retail space. See the section entitled "Business — Description of Our Property Development Projects — Projects in the City of Guangzhou in the Pearl River Delta region — (13) Guangzhou Kaisa Plaza (廣州佳兆業廣場)" in this document. We believe that the Possible Disposal, if completed, would result in a satisfactory yield on our investment in Guangzhou Kaisa Plaza. Under the MOU, we intend to dispose of and the Potential Purchaser intends to acquire the 100% equity interest held by us in Guangzhou Jiasui upon completion of the development of Guangzhou Kaisa Plaza. Under the MOU, the consideration for the acquisition of our equity interest in Guangzhou Jiasui was proposed to be no less than RMB1,850 million, which will be subject to the further negotiation and final consideration as set forth in the formal equity transfer agreement. The proposed consideration was based on the commercial negotiation taking into account the prevailing market conditions in Guangzhou and the location and market potential of Guangzhou Kaisa Plaza. In addition, the Potential Purchaser intends to assume up to RMB900 million of the development costs (including land costs, construction costs and other related fees and taxes). According to our current development plan and internal management records, the estimated total development costs for Guangzhou Kaisa Plaza are approximately RMB750.0 million, including the development costs of approximately RMB395.3 million incurred as of September 30, 2009 and the estimated additional costs of RMB354.7 million for completion of this project.

Pursuant to the MOU, the Potential Purchaser shall pay to us the security deposit of not less than RMB100 million upon the execution of a formal equity transfer agreement. Under the MOU, it is also agreed that we will not, within 60 days from the date of the MOU, negotiate with any party other than the Potential Purchaser for the Possible Disposal, and we will be subject to a penalty of no more than RMB1 million if we breach this exclusive negotiation provision. Except for the exclusive negotiation provision, the MOU does not constitute a legally binding commitment in respect of the Possible Disposal. The Possible Disposal will be subject to the execution and completion of the formal equity transfer agreement.

BASIS OF PRESENTATION

Our audited consolidated financial information as of and for the three years ended December 31, 2006, 2007 and 2008 and as of and for the six months ended June 30, 2009 was audited by PricewaterhouseCoopers, Certified Public Accountants.

The Reorganization has been undertaken. We have accounted for the Reorganization on the basis of merger accounting for common control combination. Accordingly, our financial information has been prepared as if the current structure of our Group had been in existence since January 1, 2006, or since the respective dates when the companies now comprising our Group were incorporated/established, whichever is later. For companies acquired from (or disposed to) a third party during the Track Record Period, they are included in (excluded from) the financial information at the date of the respective acquisitions (disposals). All intra-group transactions and balances have been eliminated on consolidation. The results of our subsidiaries under the trust arrangements set out in the section entitled "History, Reorganization and Group Structure — Reorganization — Trust arrangements involving our subsidiaries" in this document have been consolidated into our track record results because these subsidiaries were directly or indirectly controlled by the Kwok Family during the Track Record Period.

Pursuant to HKFRS, our financial information has been prepared under the historical cost convention, as modified by the revaluation of investment properties and financial derivatives, which are carried at fair value throughout the Track Record Period.

Unless the context otherwise requires, references to "2006," "2007" and "2008" in this document are to our financial years ended December 31, 2006, 2007 and 2008, respectively, and references to "2009" are to our financial year ending December 31, 2009.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been, and we expect will continue to be, affected by a number of key factors and material risks, many of which are beyond our control. Please refer to the section entitled "Risk Factors" to this document. These factors and risks include the following:

Economic conditions, speed of urbanization and demand for residential and commercial properties in China, particularly in the Pearl River Delta region

Our business is heavily dependent on the performance of the real estate market in China, particularly in the Pearl River Delta region. The performance of the PRC real estate industry is subject to continued growth in the economy, rate of urbanization and resultant demand for properties in China. The key factors that we consider to be important to our operations include (1) general economic development, (2) growth conditions in the private sector and (3) urban planning. Economic growth attributable to the private business sector has increased the general level of disposable income and the number of middle to upper-middle income households, which are our primary target customers. Developments in the economy and the rate of urbanization have in the past increased the supply of and demand for residential properties and affected pricing trends in the property sector in the cities and regions where we operate in China. We believe that these factors will continue to significantly impact our results of operations. The slowdown of the worldwide economy, including that of China, resulted in the decline in real estate market sentiment, which adversely affected property demand and average selling prices and rental prices in many areas of China 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 detail, see "— Results of Operations — 2008 compared to 2007" and the section entitled "Business — Impact of the Recent Global Economic Slowdown and Financial Crisis" in this document. Any economic downturn in China generally or, in particular, in the regions where we operate, could adversely affect our business, results of operations and financial condition.

The regulatory environment and measures affecting the real estate industry in China

Our business and results of operations have been, and will continue to be, affected by the regulatory environment in China, PRC governmental policies and measures taken by the PRC Government on property development and related industries. In recent years, the PRC Government has implemented a series of measures with a view to controlling the growth of the economy, including the real estate markets. While the real estate industry is regarded as a pillar industry by the PRC Government, the PRC Government has taken various restrictive measures to discourage speculation in the real estate market and to increase the supply of affordable residential properties. From time to time, the PRC Government adjusts or introduces macroeconomic control policies to encourage or restrict development in the private property sector through regulating, among others, land grants, pre-sales of properties, bank financing and taxation. Measures taken by the PRC Government to control money supply, credit availability and fixed assets also have a direct impact on our business and results of operations. The PRC Government may introduce initiatives which may affect our access to capital and the means in which we may finance our property development. You should refer to Appendix V "Summary of Principal Legal and Regulatory Provisions" to this document for more details on the relevant PRC laws and regulations.

In response to the global financial crisis and in an effort to expand domestic demand, the State Council issued a notice on Adjusting the Capital Ratio of Fixed Asset Investment Projects (國務院關於調整固定資產投資項目資本金比例的通知) on May 25, 2009. Pursuant to the notice, the capital ratio for government subsidized housing projects and ordinary commodity housing projects was reduced from 35% to 20%, and the capital ratio for other property development projects was reduced from 35% to 30%. On October 22, 2008, the PBOC promulgated the Notice on Several Issues Regarding the Expansion of the Extent of Downward Floating Interest Rate for Commercial Individual Housing Loans (關於擴大商業性個人住房貸款利率下浮幅度有關問題的通知). Pursuant to the notice, the minimum down payment for home buyers on their first house purchase was lowered to 20% of the purchase price, with the minimum mortgage loan interest rate lowered to 70% of the relevant PBOC benchmark interest rate. These and other measures have affected the overall economy in China, with differing effects on various sectors.

Ability to acquire suitable land at suitable prices

To have a steady stream of properties available for sale and to achieve continuous growth in the long term, we need to replenish and increase land reserves suitable for development. Based on our current development plans, we have sufficient land reserves for property developments for the next three years. We expect competition among property developers for land reserves that are suitable for property development to remain intense. In addition, PRC governmental land supply policies and implementation measures may further intensify competition for land in China among property developers. For example, although privately held land use rights are not prevented from being traded in the secondary market, the statutory means of public tender, auction and listing-for-sale practice in respect of the grant of state-owned land use rights is likely to increase competition for development land and to increase land acquisition costs.

Land and construction costs

Our results of operations are affected by key components of our cost of sales, such as land costs and construction costs. In 2006, 2007, 2008 and the six months ended June 30, 2009, our land costs were RMB384.2 million, RMB181.7 million, RMB458.6 million and RMB429.2 million, respectively, and our average land cost as a percentage of our average property sales revenue was approximately 16.2%, 8.7%, 15.6% and 17.8%, respectively. Land premiums have generally been increasing over the past 10 years in China. We believe that land premiums will continue to rise as the PRC economy may continue to develop. Another key component of our cost of sales is construction costs, which are susceptible to the price volatility of construction materials such as steel and cement. We are exposed to the price volatility of construction materials. The price increase in construction materials during the Track Record Period increased our construction costs and had a negative effect on our gross profit margin.

Access to and cost of financing

Bank borrowing is an important source of funding for our property developments. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our outstanding borrowings and long-term loan with detachable warrants amounted to RMB2,361.5 million, RMB4,568.5 million, RMB6,497.5 million and RMB6,758.2 million, respectively. The effective interest rates on our bank borrowings included in non-current liabilities for 2006, 2007, 2008 and the six months ended June 30, 2009 were approximately 6.1%, 6.7%, 7.9% and 5.9%, respectively. The effective interest rates on our bank borrowings, included in current liabilities for 2006, 2007, 2008 and the six months ended June 30, 2009 were approximately 5.8%, 6.2%, 7.4% and 5.7%, respectively. As commercial banks in China link the interest rates on their bank loans to benchmark lending rates published by the PBOC, any increase in such benchmark lending rates will increase the interest costs for our developments. Our ability and flexibility to use bank loans to finance our property projects are also affected by the measures taken by the PRC Government from time to time to restrain money supply and credit availability for fixed asset investments, particularly with respect to the property development sector. In August 2007, we borrowed a long-term loan with detachable warrants, which bears an effective interest rate of approximately 13.5%. See "— Indebtedness — Long term loan with detachable warrants."

Pre-sale and progress of property development

Pre-sales constitute the most important source of our operating cash inflow during our project development. PRC law allows us to pre-sell properties before their completion upon obtaining the pre-sale permit from the relevant governmental authorities and requires us to use the pre-sale proceeds to develop the relevant pre-sale property projects. However, we do not recognize revenue from the pre-sale of a property until the property has been delivered to the purchaser. The progress of property development may affect our ability to deliver properties to our customers within the specified time limit and in turn affect the amount and timing of cash inflows from pre-sales. In addition, reduced cash inflow from pre-sales of our properties will increase our reliance on external financing and will impact our ability to finance our continuing property developments.

LAT

We are subject to LAT with respect to the appreciated value of land. LAT applies to both domestic and foreign developers and investors in real properties in China, irrespective of whether they are corporate entities or individuals. For 2006, 2007, 2008 and the six months ended June 30, 2009, we made LAT prepayments of RMB12.0 million, RMB8.0 million, RMB46.4 million and RMB43.1 million, respectively and LAT provisions of RMB15.0 million, RMB119.0 million, RMB12.0 million and RMB60.3 million, respectively. We prepay LAT on the basis of our pre-sale proceeds in accordance with requirements of PRC tax authorities and provide for unpaid LAT liabilities based on our best estimate according to our understanding of prevailing tax rules. Actual LAT liabilities are, however, subject to determination by the tax authorities upon completion of the property development projects and, because the PRC government has not published clear and comprehensive guidelines in this regard, the tax authorities may disagree that our provisions are sufficient to cover all actual LAT obligations as of each balance sheet date in respect of our past LAT liabilities. We have provided more details on the PRC regulations on LAT in Appendix V "Summary of Principal Legal and Regulatory Provisions" to this document.

Fair Value of Investment Properties

We hold investment properties for rental income or capital appreciation. We consider the estimated long-term growth potential, overall market conditions and our cash flows and financial conditions when we decide whether to sell or hold our completed properties for long-term investment purposes. Going forward, we intend to continue to consider the above factors in deciding whether to sell or lease our completed properties and we expect to increase our investment property portfolio over time. 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 consolidated statements of comprehensive income, which may have a substantial effect on our profits. Total GFA we held for rental income was approximately 24,474 sq.m. as of December 31, 2006 and 2007, 69,432 sq.m. as of December 31, 2008 and 73,145 sq.m. as of June 30, 2009. Our investment properties were revalued by an independent property valuer as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively, on an open market for existing use basis which reflected market conditions at those dates. The fair value of our investment properties may have been higher or lower had the valuer used a different set of bases or assumptions, or had the valuation been conducted by other qualified independent professional valuers using a different set of bases and assumptions. In addition, upward revaluation adjustments reflect unrealized capital gains on our investment properties as of the relevant balance sheet dates and do not generate any cash inflow for our operations or potential dividend distribution to our Shareholders. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. If similar levels of fair value gains cannot be sustained in the future, our results of operations can be adversely impacted. See the section entitled "Summary — Profit Forecast For the Year Ending December 31, 2009 — Sensitivity Analysis" and the section entitled "Risk Factors — Risks Relating To Our Business — 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" in this document.

CRITICAL ACCOUNTING POLICIES

The preparation of our financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires our management to exercise its judgment in the process of applying our accounting policies. Therefore, the financial information included in this document may not necessarily reflect our results of operations, financial position and cash flows in the future or what they would have been had we been a separate, stand-alone entity during the periods presented.

Critical accounting policies are those accounting policies that are reflective of significant judgments and uncertainties and that potentially yield materially different results under different assumptions and conditions.

When reviewing our consolidated financial information, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our consolidated financial information. In addition, we discuss our revenue recognition policy below because of its significance, even though it does not involve significant estimates or judgments.

Revenue recognition

Revenue is shown after eliminating sales with the companies comprising our Group. Revenue is recognized when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the activities as described below:

Sales of properties

Revenue from sales of a property is recognized when the risks and rewards of the property are transferred to the purchaser, which occurs when the construction of relevant property has been completed and the properties have been delivered to the purchasers and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet as advanced proceeds received from customers under current liabilities.

Rental income

Rental income from properties under operating leases is recognized on a straight-line basis over the lease terms.

Project consultancy services

Project consultancy services income is recognized in the accounting period in which the service is rendered.

Property management services

Commission arising from property management services is recognized in the accounting period in which the service is rendered.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, we reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continue unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

Fair value of investment properties

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Changes in fair values of investment property are recognized in the income statement in the year in which such changes arise. The fair values of investment properties as of December 31, 2006, 2007 and 2008 and June 30, 2009, were determined by independent property valuers, on an open market for existing use basis. In making the judgment, consideration was given to assumptions that are mainly based on market conditions existing as of December 31, 2006, 2007 and 2008 and June 30, 2009, expected rental from future leases in the light of current market conditions and appropriate capitalization rates. These estimates are regularly compared to actual market data and actual transactions entered into by us. Changes in subjective input assumptions can materially affect the fair value estimate.

Properties under development

For accounting purposes, properties under development include properties for which we have obtained the relevant land use rights certificates. Properties under development are stated at the lower of cost and net realizable value. Development cost of property comprises construction costs, depreciation of machinery and equipment, amortisation of land use rights, borrowing costs on qualifying assets and professional fees incurred during the development period. Net realizable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs of completion, or by management estimates based on prevailing market conditions. The assessment of carrying amount of properties under development requires the use of our judgement and estimates. We will make provision to revise these estimates when events or changes in circumstances indicate that the carrying amounts may not be realized.

Completed properties held for sale

Completed properties remaining unsold at the end of each of the Track Record Period are stated as inventory (or current assets held for sale) at the lower of cost and net realizable value. Cost comprises development costs attributable to the unsold properties. Net realizable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions. The assessment of carrying amount of completed properties for sale requires the use of our judgment and estimates. We will make provision to revise these estimates when events or changes in circumstances indicate that the carrying amounts may not be realized.

Borrowings and borrowing costs

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

Borrowing costs are charged to the income statement in the accounting period in which they are incurred, except for costs related to funding of the construction and acquisition of properties under development which are capitalized as part of the cost of that asset during the construction period and up to the date of completion of construction.

Long-term loan with detachable warrants

Long-term loan with detachable warrants that contain liability, warrants and options are classified as loan liabilities, equity investments and derivatives on initial recognition and are remeasured to fair value through profit or loss at subsequent reporting dates. We engaged an independent appraiser to assist us in determining the fair value of these financial derivatives. This consideration of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Income taxes and deferred taxation

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period when such determination is made.

We are subject to enterprise income tax in China. Before and up to December 31, 2007, the companies established in the Shenzhen Special Economic Zone were subject to PRC enterprise income tax at a rate of 15% while other companies established outside the Shenzhen Special Economic Zone were subject to PRC enterprise income tax at a rate of 33%, unless such companies were located in the regions with different tax regimes. In March 2007, the NPC approved the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which took effect on January 1, 2008. The new enterprise income tax law unifies the enterprise income tax rate for domestic enterprises and foreign investment enterprises to 25% unless the enterprise qualifies under certain limited exceptions. Effective January 1, 2008, the companies in the Shenzhen Special Economic Zone have been allowed an extension period of five years to phase into the new tax regime. The applicable enterprise income tax rate applicable to our subsidiaries which were registered and established prior to March 16, 2007 in the Shenzhen Special Economic Zone was 18% in 2008 and will be 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. For companies currently subject to a tax rate of 33%, the enterprise income tax rate has been decreased to 25% from January 1, 2008. Since the deferred income tax assets and liabilities will be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of our subsidiaries located in China. We will continue to evaluate the impact of the new enterprise income tax law on our results of operations and financial condition as detailed measures and regulations are issued.

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

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

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

LAT

Our property developments are subject to LAT. LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges of land use rights and all property development expenditures, which is included in the consolidated statements of comprehensive incomes as cost of sales. We make LAT provisions based on our calculation in accordance with relevant government regulations. The tax bureaus in general have not strictly enforced the LAT regulations, and many localities have not published settlement rules. Accordingly, significant judgment is required in determining the amount of LAT. We recognize LAT based on our management's best estimates according to our understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the costs of sales and deferred income tax provision in the periods in which such taxes have been finalized with local tax authorities. See "— Key Factors Affecting Our Results of Operations — LAT" and the section entitled "Risk Factors — Risks Relating to Our Businesses — Our LAT provisions and prepayment may not be sufficient to meet our LAT obligations" in this document.

CERTAIN INCOME STATEMENT ITEMS

Revenue

Revenue primarily comprises the fair value of the consideration received or receivable for the sales of properties and services in the ordinary course of business. We recognize our revenue from sales of properties after the properties have been sold and delivered to the purchasers. We pre-sell our properties under development in accordance with PRC pre-sale regulations. We do not, however, recognize the proceeds from pre-sales until we have completed the construction of these properties and delivered the properties to the purchasers. Typically there is a time gap ranging from six to 12 months between the time we commence pre-sale of the properties under development and the delivery of the properties. We record the proceeds received from the pre-sold properties as advance proceeds received from customers, an item of current liabilities on our balance sheet, and as a part of cash inflows from operating activities on our cash flow statements.

In 2006, we delivered residential GFA of approximately 344,616 sq.m., which constituted approximately 99.7% of our total delivered GFA, and commercial GFA of approximately 1,005 sq.m., which constituted approximately 0.3% of our total delivered GFA. In 2007, we delivered residential GFA of approximately 243,278 sq.m., which constituted approximately 95.2% of our total delivered GFA, and commercial GFA of approximately 12,197 sq.m., which constituted approximately 4.8% of our total delivered GFA. In 2008, we delivered residential GFA of approximately 213,114 sq.m., which constituted approximately 70.3% of our total delivered GFA, and commercial GFA of approximately 90,103 sq.m., which constituted approximately 29.7% of our total delivered GFA. In the six months ended June 30, 2009, we delivered residential GFA of approximately 267,195 sq.m., which constituted approximately 96.7% of our total delivered GFA, and commercial GFA of approximately 9,247 sq.m., which constituted approximately 3.3% of our total delivered GFA.

We generate a small portion of revenue from the rental income derived from our investment properties and property management services.

In 2007 and 2008, our revenue also included income derived from our project consultancy services provided for the development of Riverside Hill Town.

Cost of sales

Cost of sales comprises primarily land acquisition costs, construction costs, capitalized borrowing costs, business taxes and direct cost related to property investment and property management. The table below sets forth breakdowns by these categories of our cost of sales for 2006, 2007 and 2008, respectively, and for the six months ended June 30, 2008 and 2009, respectively.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions) (unaudited)	(RMB millions)
Land costs	384.2	181.7	458.6	274.9	429.2
Construction costs	1,242.0	890.6	1,495.5	547.7	1,105.8
Capitalized borrowing costs	91.7	83.9	143.1	27.2	197.2
Business taxes	105.6	106.7	114.4	23.3	123.7
Direct cost related to property investment and property management	2.9	2.6	31.8	8.7	18.2
Total cost of sales	1,826.5	1,265.5	2,243.4	881.8	1,874.1

Land costs. Land costs represent costs relating to the acquisition of the rights to occupy, use and develop land, including land premiums, deed taxes and government surcharges and demolition and resettlement cost. The land costs are recognized as part of cost of sales upon the completion and delivery of relevant properties to the purchasers. In 2006, 2007 and 2008 and the six months ended June 30, 2009, our average land costs per sq.m. of GFA were approximately RMB1,112, RMB711, RMB1,512 and RMB1,553, respectively, as measured by dividing the aggregate land costs recognized in our consolidated statements of comprehensive income by the aggregate saleable GFA of properties delivered within these periods. Our average land cost per sq.m. decreased from 2006 to 2007 primarily because we completed and delivered most of the units with a GFA of approximately 61,211 sq.m. in Shenzhen Kaisa Center in 2006, which had relatively high land costs due to its location in Shenzhen's CBD. While we delivered the rest of the units in Shenzhen Kaisa Center with a GFA of approximately 406 sq.m. in 2007, the average land costs for our other delivered properties with a GFA of 255,095 sq.m. in 2007 were lower than the average costs for delivered properties in Shenzhen Kaisa Center. Our average land costs per sq.m. increased from 2007 to 2008 primarily due to the completion and delivery of office space in Guangzhou Jinmao, which had relatively higher average land cost due to the project's prime location within Guangzhou's CBD. The further increase in our average land costs in the six months ended June 30, 2009 was primarily due to the completion and delivery of Xiangrui Garden, which had relatively higher average land cost than the residential properties we delivered in 2008 due to the location of this project in the popular Nanshan District in Shenzhen. Our average land cost per sq.m. in the six months ended June 30, 2008 was approximately RMB3,073 and primarily reflected the land costs of the delivered commercial GFA in Guangzhou Jinmao, which contributed most of our revenue for the six months ended June 30, 2008.

Construction costs. Construction costs represent costs for the design and construction of a property project, consisting primarily of fees paid to our contractors, including contractors responsible for civil engineering construction, landscaping, equipment installation and interior decoration, as well as infrastructure construction costs, design costs and certain government surcharges. Our construction costs are affected by a number of factors such as price movements for construction materials, location and types of properties, choices of materials and investments in ancillary facilities. In 2006, 2007, 2008 and the six months ended June 30, 2009, our construction costs were RMB1,242.0 million, RMB890.6 million, RMB1,495.5 million and RMB1,105.8 million, respectively.

Capitalized borrowing costs. Capitalized borrowing costs are derived from borrowings for our property development. We capitalize our borrowing costs as part of the cost of sales for a development project to the extent that such costs are directly attributable to the acquisition and construction of such project.

Business taxes. Revenue from property development and property investment are subject to business taxes of 5%, and revenue from property management is subject to business taxes of 5%.

Other gains/losses, net

Other net gains/losses primarily consist of forfeited customer deposits, net exchange gains/losses, gains on disposal of subsidiaries, income from investment in stocks listed on Stock Exchange and impairment losses on land use rights, properties under development and completed properties held for sale. The forfeited customer deposits are the non-refundable initial deposits paid by our customers upon entering into preliminary sale and purchase agreements but which we forfeited as a result of the failure of our customers to complete the purchases.

Land use rights, properties held for sale or properties held for future development are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. In 2008, we incurred and recognized impairment losses of RMB58.0 million on the completed properties held for sale and land use rights in Mingcui Garden Phase 1 and impairment losses of RMB155.0 million on the properties under development and land use rights in Lijing Harbor Phase 1. As the selling prices of properties in Mingcui Garden Phase 1 and Lijing Harbor Phase 1 were materially and adversely affected by the global economic slowdown and decline in demand for properties during the course of our pre-sales and sales of these two projects in 2008, the carrying amount of these properties were in excess of the net cash flows estimated to be generated from the properties for sale in these two projects. All the losses related to the properties pre-sold and sold that were known at the time of assessments for 2008 were recognized in 2008. Based on the impairment assessments prepared as at June 30, 2009, no losses from properties sold and pre-sold were noted for these two projects and other projects and our management believes that no provision for impairment losses is necessary in respect of our property projects in 2009.

Selling and marketing costs

Selling and marketing costs include advertising expenses, sales and agency commissions, and other expenses relating to sales and promotion of our properties.

Administrative expenses

Administrative expenses comprise primarily staff costs, office expenses, directors' emoluments, depreciation, legal and professional fees, travel expenses, and donations.

Change in fair value of investment properties

We hold certain properties, such as the commercial properties in Shenzhen Kaisa Center and Woodland Height Phases 4 and 6, and commercial properties and car parking spaces in Guangzhou Jinmao, for rental income or capital appreciation. Changes in fair values of investment property are recognized in the income statement in the year such changes arise. The fair values of our investment properties as of December 31, 2006, 2007 and 2008 and June 30, 2009 were determined by independent property valuers. The amounts of revaluation adjustments have been, and may continue to be, significantly affected by the prevailing property markets. See "— Critical Accounting Policies — Fair Value of Investment properties" and "— Certain Balance Sheet Items — Investment Properties" in this "Financial Information" section.

Fair value change on financial derivatives

In September 2007, we entered into the Credit Agreement, pursuant to which a number of financial institutions agreed to make available to us a term loan facility. In connection with the Loan, we issued the Warrants pursuant to the warrant instruments dated September 12, 2007. For more details on the term loan facility and the Warrants, see "— Indebtedness — Long-term loan with detachable warrants" and the section entitled "History, Reorganization and Group Structure — Strategic Investments" in this document. The fair value of financial derivatives reflected the fair value of the financial derivatives issued under the warrant instruments. The fair values of the financial derivatives were calculated by an independent appraiser. The determination of fair value was made after consideration of a number of factors, including: effective interest rate, probability of the qualifying initial public offering, the average interest rate for five-year to seven-year term China treasury bonds and expected IPO price. We had fair value losses in financial derivatives of RMB18.6 million in 2007 and RMB19.9 million in the six months ended June 30, 2009, in contrast to the fair value gains in financial derivatives of RMB27.2 million in 2008. The fluctuation in fair value of financial derivatives during the Track Record Period was primarily attributable to the probability of the qualifying initial public offering assessed as at each of the respective balance sheet dates.

Finance income

Finance income represents interest income on bank deposits.

Finance costs

Finance costs comprise primarily interest expenses on bank borrowings, other borrowings and long-term loan with detachable warrants, net of capitalized borrowing costs. Since the construction period for a project does not necessarily coincide with the interest payment period of the relevant loan, not all of the interest costs related to a project can be capitalized. As a result, our finance costs fluctuate from period to period.

Income tax expenses

Income tax expenses represent PRC enterprise income tax payable, deferred tax and LAT payable by our subsidiaries. The following table sets forth our tax provision for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Current income tax					
— PRC enterprise income tax	60,695	135,608	135,035	79,443	90,849
— PRC LAT	14,952	119,000	11,997	9,666	60,306
Underprovision	—	4,835	—	—	—
Deferred income tax	55,048	(673)	4,768	114,373	65,325
	130,695	258,770	151,800	203,482	216,480

For 2006, 2007 and 2008 and the six months ended June 30, 2009, we recognized enterprise income tax (including underprovision and deferred income tax) of RMB115.7 million, RMB139.8 million, RMB139.8 million and RMB156.2 million, respectively. The fluctuation in our enterprise income taxes during 2006, 2007 and 2008 and from the six months ended June 30, 2008 to the six months ended June 30, 2009 were primarily attributable to a change in the profitability of our subsidiaries in the respective tax jurisdictions. We made higher provision for LAT in 2007 over 2006 due to the higher gross margins from various projects delivered in 2007. We made lower LAT provision in 2008, as compared to 2007, primarily due to the decrease in our gross profit derived from the sales of properties and the lower gross margin from various projects delivered in 2008. We made higher LAT provision in the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, primarily due to the significant increase in our gross profit in the six months ended June 30, 2009. For 2006, 2007, 2008 and the six months ended June 30, 2009, our effective tax rate was approximately 20.9%, 34.9%, 23.3% and 37.0%, respectively. The increase in our effective tax rate in 2007 as compared to 2006 was primarily due to the increase in LAT in 2007. Our effective tax rate decreased to 23.3% in 2008 from 34.9% in 2007, primarily attributable to (i) the decrease in LAT, and (ii) our foreign exchange gains of RMB95.2 million, which contributed to our profit before income tax in 2008 and were exempted from payment of income tax under the relevant Cayman Islands laws. Our effective income tax rate increased to 37.0% in the six months ended June 30, 2009 from 24.3% in the six months ended June 30, 2008, primarily attributable to an increase in our LAT and the foreign exchange gains of RMB89.5 million in the six months ended June 30, 2008, which were exempted from payment of income tax under the relevant Cayman Islands laws. During the Track Record Period, we paid overdue taxes with an aggregate amount of approximately RMB5.4 million, late payment fees with an aggregate amount of approximately RMB2.0 million and related penalty fines of approximately RMB501,399 for certain instances of non-compliance with the relevant PRC tax laws and regulations. As of the Latest Practicable Date, we had fully settled these overdue taxes, late payment fees and related penalty fines. We have adopted certain measures to enhance our compliance with relevant tax laws and regulations. See the section entitled "Business — Compliance with Relevant PRC Regulations and Requirements" in this document.

No income tax expense was provided for associated companies as no assessable profit was generated for 2006. No Hong Kong profits tax was provided for each of 2006, 2007 and 2008 and the six months ended June 30, 2009 as we had no assessable profits for those periods. Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

Under the PRC tax laws effective prior to January 1, 2008, dividends paid by our PRC subsidiaries to us were exempt from PRC income tax. However, pursuant to the PRC Enterprise Income Tax Law and its implementation rules that became effective on January 1, 2008, dividends payable by foreign-invested enterprises, such as subsidiaries and joint ventures in China, to their foreign investors are subject to a withholding tax at a rate of 10% unless such foreign investors' jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. See the section entitled "Risk Factors — Risks Relating to Our Business — 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 this document. In respect of the unremitted earnings of our PRC subsidiaries in 2008 and the six months ended June 30, 2009, we are able to control the distribution of these unremitted earnings and have no intention to distribute any profits out of our PRC subsidiaries in the foreseeable future. Therefore, we made no provision for withholding tax on undistributed profits of our PRC subsidiaries as of December 31, 2008 and June 30, 2009.

Profit for the year/period

For 2006, 2007 and 2008 and the six months ended June 30, 2009, our profit was RMB493.3 million, RMB483.4 million, RMB500.9 million and RMB368.0 million, respectively, and our net profit margin was approximately 20.6%, 21.6%, 16.1% and 14.9%, respectively.

RESULTS OF OPERATIONS

The table below summarizes our audited consolidated results for 2006, 2007, 2008 and the six months ended June 30, 2009 and unaudited consolidated result for the six months ended June 30, 2008:

Consolidated Statements of Comprehensive Income

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Revenue	2,398,660	2,239,360	3,110,446	1,287,736	2,473,732
Cost of sales	(1,826,484)	(1,265,501)	(2,243,354)	(881,836)	(1,874,108)
Gross profit	572,176	973,859	867,092	405,900	599,624
Other gains/(losses), net	3,134	10,422	(116,216)	90,074	(482)
Selling and marketing costs	(83,786)	(59,346)	(151,821)	(68,169)	(70,174)
Administrative expenses	(81,518)	(157,243)	(165,721)	(85,568)	(99,389)
Change in fair value of investment properties	231,742	36,500	302,557	575,369	281,397
Change in fair value of financial derivatives	—	(18,642)	27,221	(25,646)	(19,925)
Operating profit	641,748	785,550	763,112	891,960	691,051
Finance income	12,576	9,029	7,243	4,660	1,792
Finance costs	(30,222)	(52,438)	(117,642)	(60,673)	(108,401)
Finance costs — net	(17,646)	(43,409)	(110,399)	(56,013)	(106,609)
Share of results of associated companies	(65)	(1)	—	—	—
Profit before income tax	624,037	742,140	652,713	835,947	584,442
Income tax expenses	(130,695)	(258,770)	(151,800)	(203,482)	(216,480)
Profit for the year/period	493,342	483,370	500,913	632,465	367,962
Profit attributable to:					
Equity holders of the Company	493,342	483,369	500,921	632,469	367,972
Minority interest	—	1	(8)	(4)	(10)
	493,342	483,370	500,913	632,465	367,962

Segment information

During the Track Record Period, we derived most of our revenue from sales of properties we developed. The following table sets out our revenue in each business segment and the percentage of revenue represented by each segment for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	(RMB millions)		(RMB millions)		(RMB millions)		(RMB millions) (unaudited)		(RMB millions)	
Sales of properties	2,374.7	99.0%	2,095.1	93.5%	2,947.4	94.8%	1,186.5	92.1%	2,404.8	97.2%
Project consultancy services	—	—	104.8	4.7%	70.3	2.3%	70.3	5.5%	—	—%
Rental income	20.3	0.8%	28.4	1.3%	52.5	1.7%	21.9	1.7%	42.7	1.7%
Property management services	3.7	0.2%	11.1	0.5%	40.3	1.3%	9.0	0.7%	26.2	1.1%
Total	2,398.7	100.0%	2,239.4	100.0%	3,110.4	100.0%	1,287.7	100.0%	2,473.7	100%

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

Revenue. Our revenue increased by RMB1,186.0 million, or 92.1%, to RMB2,473.7 million in the six months ended June 30, 2009 from RMB1,287.7 million in the six months ended June 30, 2008. This increase in revenue was primarily attributable to an increase in our delivered GFA, partially offset by a decrease in the average selling price per sq.m. The properties that contributed substantially to our revenue in the six months ended June 30, 2009 were Xiangrui Garden, Jiangyin Lake View Place Phase 1, Shenzhen Lake View Place Phases 4–5, Zhongyang Haomen Phase 1 and Mingcui Garden Phase 1.

Sales of properties. Our revenue from sales of properties increased by RMB1,218.3 million, or 102.7%, to RMB2,404.8 million in the six months ended June 30, 2009 from RMB1,186.5 million in the six months ended June 30, 2008. This increase was primarily attributable to an increase in the total delivered GFA from approximately 89,446 sq.m. in the six months ended June 30, 2008 to approximately 276,442 sq.m. in the six months ended June 30, 2009, partially offset by a decrease in the average selling price per sq.m. from approximately RMB13,265 in the six months ended June 30, 2008 to approximately RMB8,699 in the six months ended June 30, 2009. Most of the properties we sold and delivered in the six months ended June 30, 2009 were residential units, while the project that contributed substantially to our revenue in the six months ended June 30, 2008 was Guangzhou Jinmao, which is located in a prime location within Guangzhou's CBD and consists of a premium grade office building and retail space. As the average selling price of our commercial properties is generally higher than that of our residential properties, the completion and delivery of office space in Guangzhou Jinmao had a positive effect on our average selling price in the six months ended June 30, 2008.

The following table sets out information on the revenue, cost of sales, GFA delivered and average selling price for properties in each of our projects in the six months ended June 30, 2008 and the six months ended June 30, 2009.

	Revenue		Costs of Sales		Total GFA delivered(1)		Average selling price(2)	
	Six months ended June 30,		Six months ended June 30,		Six months ended June 30,		Six months ended June 30,	
	2008	2009	2008	2009	2008	2009	2008	2009
	(unaudited)		(unaudited)					
	(RMB'000)		(RMB'000)		(sq.m.)		(RMB/sq.m.)	
Woodland Height (桂芳園)								
Phase 4	519	—	275	—	71	—	7,266	—
Phase 5	1,500	—	1,105	—	185	—	8,113	—
Phase 6	3,316	—	1,733	—	369	—	8,996	—
Mocha Town (可園)								
Phase 1	700	—	568	—	77	—	9,045	—
Phase 2	—	2,431	—	1,196	—	323	—	7,517
Phase 3	—	4,651	—	1,455	—	389	—	11,961
Phase 4	1,399	4,760	748	967	54	259	25,700	18,414
Phase 5	17,881	—	11,473	—	1,239	—	14,431	—
Phase 6	49,246	4,453	27,564	1,712	2,373	445	20,761	10,008
Phase 7	—	38,037	—	24,616	—	4,466	—	8,517
Lake View Place (水岸新都)								
Phase 2	6,646	—	2,052	—	421	—	15,786	—
Phase 3	—	35,227	—	16,288	—	3,463	—	10,173
Phases 4 & 5	—	386,088	—	326,249	—	66,917	—	5,770
Guangzhou Jinmao (廣州金貿項目)	1,105,319	97,748	804,894	42,313	84,657	4,159	13,056	23,501
Zhongyang Haomen (中央豪門)								
Phase 1	—	259,252	—	192,784	—	47,789	—	5,425
Jiangyin Lake View Place (江陰水岸新都)								
Phase 1	—	407,980	—	302,949	—	38,963	—	10,471
Xiangrui Garden (香瑞園)	—	899,542	—	576,512	—	61,146	—	14,711
Mingcui Garden (茗萃園)								
Phase 1	—	264,593	—	245,138	—	48,122	—	5,498
Total	1,186,525	2,404,762	850,412	1,732,179	89,446	276,442		

(1) *Based on our internal records.*

(2) *The average selling price for the period is calculated by dividing the revenue as shown in the first and second columns by the total GFA delivered as shown in the fifth and sixth columns.*

Rental income. Our rental income increased by RMB20.8 million, or 95.0%, to RMB42.7 million in the six months ended June 30, 2009 from RMB21.9 million in the six months ended June 30, 2008. This increase was primarily attributable to the increased retail space in Guangzhou Jinmao that was leased out in the six months ended June 30, 2009.

Property management services. Our revenue from property management fees increased by RMB17.2 million, or 191.1%, to RMB26.2 million in the six months ended June 30, 2009 from RMB9.0 million in the six months ended June 30, 2008. This increase was primarily attributable to the additional property management fees derived from our property services for the commercial properties in Guangzhou Jinmao and the residential units delivered in the six months ended June 30, 2009.

Project consultancy services. Our revenue also comprised income from our project consultancy services provided for the development of Riverside Hill Town. The project consultancy services were performed under a series of contractual development arrangements for Riverside Hill Town between us and an independent third party. Revenue derived from our project consultancy services represents the payment for our project consultancy services provided for the development of Riverside Hill Town and our contribution to this project under the relevant agreement. See the section entitled "Business — Project Management and Consultancy Services" in this document. Our revenue from our project consultancy services was RMB70.3 million in the six months ended June 30, 2008 and nil in the six months ended June 30, 2009. We had received the total project consultancy services fees by the end of 2008.

Cost of sales. Our cost of sales increased by RMB992.3 million, or 112.5%, to RMB1,874.1 million in the six months ended June 30, 2009 from RMB881.8 million in the six months ended June 30, 2008. This increase was primarily attributable to the increased amount of GFA delivered, partially offset by a decrease in the average land cost per sq.m. to RMB1,553 in the six months ended June 30, 2009 from RMB3,073 in the six months ended June 30, 2008. The higher average land cost per sq.m. in the six months ended June 30, 2008 was primarily attributable to the completion and delivery of office space in Guangzhou Jinmao, which had relatively high land costs due to the project's prime location within Guangzhou's CBD.

Gross profit. Our gross profit increased by RMB193.7 million, or 47.7%, to RMB599.6 million in the six months ended June 30, 2009 from RMB405.9 million in the six months ended June 30, 2008. Our gross profit margin in the six months ended June 30, 2008 and the six months ended June 30, 2009 was 31.5% and 24.2%, respectively. We had lower gross profit margin in the six months ended June 30, 2009 primarily because we had no revenue from project consultancy services in this period, which generally has relatively higher gross profit margin than that of our sales of properties. Our gross profit margin of the sales of properties in the six months ended June 2008 and the six months ended June 2009 remained relatively constant.

Other gains/losses, net. Our other net gains decreased by RMB90.6 million, or approximately 100.5%, to RMB0.5 million in the six months ended June 30, 2009 from RMB90.1 million in the six months ended June 30, 2008. This decrease was primarily attributable to the foreign exchange losses of RMB1.8 million in the six months ended June 30, 2009, as compared to the foreign exchange gains of RMB89.5 million in the six months ended June 30, 2008. Our foreign exchange gains and losses were primarily derived from the proceeds from the U.S. dollar denominated long-term loan with detachable warrants we borrowed in the second half of 2007. See "— Indebtedness — Long-term loan with detachable warrants." The fluctuation of our foreign exchange gains and losses was primarily affected by the exchange rate between the Renminbi and U.S. dollar.

Selling and marketing costs. Our selling and marketing costs remained largely constant in the six months ended June 30, 2009 and the six months ended June 30, 2008.

Administrative expenses. Our administrative expenses increased by RMB13.8 million, or 16.1%, to RMB99.4 million in the six months ended June 30, 2009 from RMB85.6 million in the six months ended June 30, 2008. This increase was primarily attributable to an increase in amortized costs of land use rights due to our increased land acquisition activities, an increase in operating rental expenses for our increased rented office premises in various regions and an increase in staff costs resulting from our business expansion.

Change in fair value of investment properties. The increase in fair value of our investment properties was RMB575.4 million of investment properties in the six months ended June 30, 2008 and RMB281.4 million in the six months ended June 30, 2009. The increase in fair value of our investment properties in the six months ended June 30, 2008 was primarily attributable to the addition of commercial properties in Guangzhou Jinmao into our investment property portfolio. The increase in fair value of our investment properties in the six months ended June 30, 2009 was primarily attributable to the appreciated fair value of our investment properties in Guangzhou Jinmao and addition of commercial properties in Woodland Height Phase 4 into our investment property portfolio.

Change in fair value of financial derivatives. We incurred a fair value loss in financial derivatives of RMB25.6 million and RMB19.9 million in the six months ended June 30, 2008 and 2009, respectively. In September 2007, we entered into a credit agreement, pursuant to which a number of financial institutions agreed to make available to us a term loan facility. In connection with the Loan, we issued the Warrants pursuant to the warrant instruments dated September 12, 2007. The fair value of financial derivatives reflected the fair value of the financial derivatives issued under the warrant instruments. The fair values of these instruments were calculated by an independent appraiser. See "— Indebtedness — Long-term loan with detachable warrants" in this document.

Finance income. Our finance income decreased by RMB2.9 million, or approximately 61.5% to RMB1.8 million in the six months ended June 30, 2009 from RMB4.7 million in the six months ended June 30, 2008. The decrease was primarily due to a decrease in the interest income on bank deposits of our proceeds from pre-sale of properties as we used a significant portion of such proceeds in financing our property development activities in the six months ended June 30, 2009.

Finance costs. Our finance costs increased by RMB47.7 million, or approximately 78.7%, to RMB108.4 million in the six months ended June 30, 2009 from RMB60.7 million in the six months ended June 30, 2008. The increase was primarily attributable to an increase in the interest expense incurred, net of the portion being capitalized, in relation to our increased bank borrowings used in financing our property development activities.

Income tax expenses. Our income tax expenses increased by RMB13.0 million, or approximately 6.4%, to RMB216.5 million in the six months ended June 30, 2009 from RMB203.5 million in the six months ended June 30, 2008. Our effective income tax rate increased to 37.0% in the six months ended June 30, 2009 from 24.3% in the six months ended June 30, 2008. The increase was primarily attributable to (i) the foreign exchange losses of RMB1.8 million in the six months ended June 30, 2009 in contrast to the foreign exchange gains of RMB89.5 million in the six months ended June 30, 2008, which were exempted from payment of income tax under the relevant Cayman Islands laws; and (ii) an increase in LAT from RMB9.7 million in the six months ended June 30, 2008 to RMB60.3 million in the six months ended June 30, 2009 primarily as a result of our increased gross profit, partially offset by a decrease in the deferred income tax, mainly arising from the revaluation of the fair value of investment properties from RMB114.4 million in the six months ended June 30, 2008 to RMB65.3 million in the six months ended June 30, 2009.

Profit for the year/period. As a result of the factors described above, our profit for the year/period decreased by RMB264.5 million, or 41.8%, to RMB368.0 million in the six months ended June 30, 2009 from RMB632.5 million in the six months ended June 30, 2008. Our net profit margin was 14.9% in the six months ended June 30, 2009 and 49.1% in the six months ended June 30, 2008. The decrease in our net profit margin was primarily attributable to the decreased fair value gain on investment properties and the decreased revenue from project consultancy services in the six months ended June 30, 2009. Our net profit (excluding change in fair value on investment properties, change in fair value of financial derivatives and the corresponding deferred taxes) for the six months ended June 30, 2008 and the six months ended June 30, 2009 was RMB222.4 million and RMB173.3 million, respectively, resulting in corresponding net profit margin (excluding change in fair value on investment properties, change in fair value of financial derivatives and the relevant deferred taxes) of 17.3% and 7.0% for the six months ended June 30, 2008 and June 30, 2009, respectively.

2008 compared to 2007

Revenue. Our revenue increased by RMB871.1 million, or 38.9%, to RMB3,110.4 million in 2008 from RMB2,239.4 million in 2007. This increase in revenue was primarily attributable to an increase in our delivered GFA and an increase in the average selling price per sq.m. in 2008. The properties that contributed substantially to our revenue in 2008 were Guangzhou Jinmao, Mocha Town Phase 7, Mingcui Garden Phase 1, Shenzhen Lake View Place Phases 3–5 and Xiangrui Garden.

Sales of properties. Our revenue from sales of properties increased by RMB852.3 million, or 40.7%, to RMB2,947.4 million in 2008 from RMB2,095.1 million in 2007. This increase was primarily due to an increase in (i) the total delivered GFA from approximately 255,501 sq.m. in 2007 to approximately 303,218 sq.m. in 2008; and (ii) our average selling price per sq.m. on delivered properties from approximately RMB8,200 in 2007 to approximately RMB9,720 in 2008. The increase in our average selling price per sq.m. in 2008 was primarily attributable to the sales and delivery of a significant amount of office space in Guangzhou Jinmao.

The following table sets out information on the revenue, cost of sales, GFA delivered and average selling price for properties in each of our projects in 2007 and 2008.

	Revenue		Cost of sales		Total GFA delivered[(1)]		Average selling price[(2)]	
	2007	2008	2007	2008	2007	2008	2007	2008
	(RMB'000)		(RMB'000)		(sq.m.)		(RMB/sq.m.)	
Woodland Height (桂芳園)								
Phase 4	—	519	—	240	—	71	—	7,273
Phase 5	—	1,500	—	573	—	185	—	8,115
Phase 6	—	3,340	—	1,037	—	369	—	9,063
Phase 7	1,293	—	869	—	206	—	6,277	—
Phase 8	6,664	—	3,721	—	400	—	16,660	—
Mocha Town (可園)								
Phase 1	—	700	—	271	—	77	—	9,050
Phase 2	21,667	—	5,397	—	1,459	—	14,851	—
Phase 3	51,482	—	7,404	—	2,021	—	25,474	—
Phase 4	83,433	1,399	11,136	178	3,091	54	26,992	25,703
Phase 5	724,693	22,251	458,629	12,976	102,272	1,842	7,086	12,078
Phase 6	798,790	57,073	435,394	11,666	92,899	3,303	8,589	17,277
Phase 7	—	866,682	—	573,401	—	95,336	—	9,091
Shenzhen Kaisa Center (深圳佳兆業中心)	6,045	—	3,752	—	406	—	14,889	—
Shenzhen Lake View Place (深圳水岸新都)								
Phase 1	78,105	—	22,788	—	5,336	—	14,637	—
Phase 2	322,880	8,433	207,097	2,495	47,411	737	6,810	11,448
Phase 3	—	258,144	—	175,639	—	38,342	—	6,733
Phases 4 and 5	—	120,433	—	77,337	—	16,301	—	7,388
Xiangrui Garden (香瑞園)	—	104,996	—	79,301	—	9,164	—	11,457
Mingcui Garden (茗萃園)								
Phase 1	—	334,768	—	314,307	—	52,005	—	6,437
Guangzhou Jinmao (廣州金貿項目)	—	1,167,133	—	847,751	—	85,431	—	13,662
Total	2,095,052	2,947,371	1,156,187	2,097,172	255,501	303,218		

(1) *Based on our internal records.*

(2) *The average selling price for the period is calculated by dividing the revenue as shown in the first and second columns by the total GFA delivered as shown in the fifth and sixth columns.*

Rental income. Our rental income increased by RMB24.1 million, or 84.9%, to RMB52.5 million in 2008 from RMB28.4 million in 2007. This increase was primarily attributable to the increased retail space in Guangzhou Jinmao and Shenzhen Kaisa Center that was leased out in 2008.

Property management services. Our revenue from property management services increased by RMB29.2 million, or 263.2%, to RMB40.3 million in 2008 from RMB11.1 million in 2007. This increase was primarily due to the additional property management fees derived from our property management services for the commercial properties in Guangzhou Jinmao and residential units delivered in 2008.

Project consultancy services. Our revenue also comprised income from our project consultancy services provided for the development of Riverside Hill Town. See the section entitled "Business — Project Management and Consultancy Services" in the document. Our revenue from our project consultancy services was RMB104.8 million in 2007 and RMB70.3 million in 2008. The project consultancy services fees were determined with reference to the GFA of Riverside Hill Town for which we provided services and support.

Cost of sales. Our cost of sales increased by RMB977.9 million, or 77.3%, to RMB2,243.4 million in 2008 from RMB1,265.5 million in 2007. This increase was primarily due to the construction cost incurred for the development of Guangzhou Jinmao, which comprises a premium grade office building, and the higher average land cost per sq.m. of RMB1,512 for the properties delivered in 2008, compared with the average land cost per sq.m. of RMB711 for the properties delivered in 2007. The substantial increase in the average land cost per sq.m. in 2008 was primarily attributable to Guangzhou Jinmao, which had relatively higher land costs due to the project's prime location within Guangzhou's CBD.

Gross profit. Our gross profit decreased by RMB106.8 million, or 11.0%, to RMB867.1 million in 2008 from RMB973.9 million in 2007. Our gross profit margin in 2007 and 2008 was 43.5% and 27.9%, respectively. The decrease in gross profit margin was primarily due to the average selling price per sq.m. growing at a slower pace than the increase in the average cost of sales per sq.m. While the average selling price per sq.m. increased by approximately 18.5% from approximately RMB8,200 in 2007 to approximately RMB9,720 in 2008, the average cost of sales per sq.m. increased by approximately 52.8% from approximately RMB4,525 in 2007 to approximately RMB6,916 in 2008. The lower rate of increase in the average selling price per sq.m. was primarily attributable to the market downturn in China as a result of the global economic slowdown.

Other gains/losses, net. We had other net losses of RMB116.2 million in 2008, as compared to the other net gains of RMB10.4 million in 2007. The other net losses in 2008 were primarily due to the impairment losses of RMB58.0 million on the completed properties held for sale and land use rights in Mingcui Garden Phase 1 and the impairment losses of RMB155.0 million on the properties under development and land use rights in Lijing Harbor Phase 1. We incurred such impairment losses mainly because our pre-sales and sales of properties in these two projects had been adversely affected by the recent global economic slowdown.

Selling and marketing costs. Our selling and marketing costs increased by RMB92.5 million, or 155.8%, to RMB151.8 million in 2008 from RMB59.3 million in 2007. The increase in selling and marketing costs was primarily due to an increase in our advertising and other promotional costs, which were incurred in connection with our pre-sale activities for relatively larger number of our projects in 2008, as compared to 2007.

Administrative expenses. Our administrative expenses increased by RMB8.5 million, or 5.4%, to RMB165.7 million in 2008 from RMB157.2 million in 2007. This increase was primarily attributable to an increase in staff costs resulting from the increased number of our administrative and management staff in connection with our property development projects in different regions.

Change in fair value of investment properties. The increase in fair value of our investment properties was RMB36.5 million of investment properties in 2007 and RMB302.6 million in 2008. The increase in fair value in 2007 was primarily attributable to valuation of the commercial properties retained by us for leasing in Shenzhen Kaisa Center. The increase in 2008 was primarily attributable to the addition of the investment properties in Guangzhou Jinmao into our investment property portfolio.

Change in fair value of financial derivatives. We had a fair value gain of RMB27.2 million of financial derivatives in 2008, compared to a fair value loss of RMB18.6 million of financial derivatives in 2007. The fair value of financial derivatives reflected the fair value of the financial derivatives issued pursuant to the warrant instruments dated September, 2007. The fair values of these instruments were calculated by an independent appraiser. See "— Indebtedness — Long-term loan with detachable warrants" in this document.

Finance income. Our finance income decreased by RMB1.8 million, or approximately 19.8% to RMB7.2 million in 2008 from RMB9.0 million in 2007. The decrease was primarily due to a decrease in the interest income on bank deposits, resulting from our increased utilization of proceeds from pre-sale of properties for financing our property development activities in 2008.

Finance costs. Our finance costs increased by RMB65.2 million, or approximately 124.3%, to RMB117.6 million in 2008 from RMB52.4 million in 2007. The increase was primarily due to an increase in the interest expense incurred, net of the portion being capitalized, primarily due to overall increased bank borrowings.

Income tax expenses. Our income tax expenses decreased by RMB107.0 million, or approximately 41.3%, to RMB151.8 million in 2008 from RMB258.8 million in 2007. Our effective income tax rate decreased to 23.3% in 2008 from 34.9% in 2007. The decrease reflected our lower provision for LAT of RMB12.0 million due to the lower gross profit margin, and our foreign exchange gains of RMB95.2 million, which were exempted from payment of income tax under the relevant Cayman Islands laws.

Profit for the year/period. As a result of the effect of the factors described above, our profit for the year/period increased by RMB17.5 million, or 3.6%, to RMB500.9 million in 2008 from RMB483.4 million in 2007. Our net profit margin was 16.1% in 2008 and 21.6% in 2007. The decrease in our net profit margin was primarily attributable to the lower gross profit margin, the increased finance costs and selling and marketing expenses in connection with our property development and sales activities. Our net profit (excluding change in fair value on investment properties, change in fair value of financial derivatives and the corresponding deferred taxes) for 2007 and 2008 was RMB470.0 million and RMB253.3 million, respectively, resulting in the corresponding net profit margin (excluding change in fair value on investment properties, change in fair value of financial derivatives and the relevant deferred taxes) of 21.0% and 8.1% for 2007 and 2008, respectively.

2007 compared to 2006

Revenue. Our revenue decreased by RMB159.3 million, or approximately 6.6%, to RMB2,239.4 million in 2007 from RMB2,398.7 million in 2006. This decrease in revenue was primarily due to a decrease in GFA delivered in 2007. The properties that contributed substantially to revenue in 2007 were Mocha Town Phases 5 and 6 and Shenzhen Lake View Place Phase 2.

Sales of properties. Our revenue from sales of properties decreased by RMB279.6 million, or approximately 11.8%, to RMB2,095.1 million in 2007 from RMB2,374.7 million in 2006. This decrease was primarily due to the decrease in total GFA we delivered from approximately 345,621 sq.m. in 2006 to approximately 255,501 sq.m. in 2007, as a result of fewer projects being sold during the year. The decrease in GFA delivered was partially offset by an increase in average selling price per sq.m. on delivered properties from approximately RMB6,871 in 2006 to approximately RMB8,200 in 2007. In particular, the average selling prices per sq.m. for Mocha Town Phases 3 and 4 had increased substantially due to sales of retail units that normally command higher prices. The average selling price per sq.m. for Woodland Height Phase 7 had decreased due to sales of more residential units instead of retail units, in 2006.

The following table sets out information on the revenue, cost of sales, GFA delivered and average selling price for properties in each of our projects in 2006 and 2007.

	Revenue		Cost of sales		Total GFA delivered(1)		Average selling price(2)	
	2006	2007	2006	2007	2006	2007	2006	2007
	(RMB'000)		(RMB'000)		(sq.m.)		(RMB/sq.m.)	
Woodland Height (桂芳園)								
Phase 4	239	—	202	—	61	—	3,918	—
Phase 5	857	—	548	—	169	—	5,071	—
Phase 7	3,480	1,293	1,421	869	348	206	10,000	6,277
Phase 8	382,693	6,664	291,886	3,721	74,557	400	5,133	16,660
Mocha Town (可園)								
Phase 1	2,900	—	1,514	—	413	—	7,022	—
Phase 2	3,583	21,667	1,999	5,397	541	1,459	6,623	14,851
Phase 3	321,888	51,482	237,499	7,404	62,844	2,021	5,122	25,474
Phase 4	485,667	83,433	318,846	11,136	87,033	3,091	5,580	26,992
Phase 5	—	724,693	—	458,629	—	102,272	—	7,086
Phase 6	—	798,790	—	435,394	—	92,899	—	8,598
Shenzhen Kaisa Center (深圳佳兆業中心)	773,776	6,045	608,710	3,752	61,211	406	12,641	14,889
Shenzhen Lake View Place (深圳水岸新都)								
Phase 1	399,652	78,105	255,278	22,788	58,444	5,336	6,838	14,637
Phase 2	—	322,880	—	207,097	—	47,411	—	6,810
Total	2,374,735	2,095,052	1,717,903	1,156,187	345,621	255,501		

(1) Based on our internal records.

(2) The average selling price for the period is calculated by dividing the revenue as shown in the first and second columns by the total GFA delivered as shown in the fifth and sixth columns.

Rental income. Our rental income increased by RMB8.1 million, or approximately 39.9%, to RMB28.4 million in 2007 from RMB20.3 million in 2006. This increase was primarily due to rental income derived from retail space in Shenzhen Kaisa Center.

Property management services. Our revenue from property management services increased by RMB7.4 million, or approximately 203.4%, to RMB11.1 million in 2007 from RMB3.7 million in 2006. This increase was primarily due to additional management fees that we received from our property management services for properties in Woodland Height and Mocha Town.

Project consultancy services. In 2007, our revenue also comprised income of RMB104.8 million derived from our project consultancy services provided for the development of Riverside Hill Town. See the section entitled "Business — Project Management and Consultancy Services" in this document.

Cost of sales. Our cost of sales decreased by RMB561.0 million, or approximately 30.7%, to RMB1,265.5 million in 2007 from RMB1,826.5 million in 2006. This decrease was due to the decreased amount of GFA delivered in 2007 and the lower average land cost per sq.m. of RMB711 for the properties delivered in 2007, compared with the average land cost per sq.m. of RMB1,112 for the properties delivered in 2006. In 2006, we completed and delivered most of the units with GFA of approximately 61,211 sq.m. in Shenzhen Kaisa Center, which had relatively high land costs due to its location in Shenzhen's CBD.

Gross profit. Our gross profit increased by RMB401.7 million, or approximately 70.2%, to RMB973.9 million in 2007 from RMB572.2 million in 2006. Our gross margin substantially increased from approximately 23.9% in 2006 to approximately 43.5% in 2007. This increase was primarily due to an increase in average selling prices of the properties that were delivered in 2007 as a result of a general increase in average selling prices in the Shenzhen property market during the year.

Other gains/losses, net. Our other net gains increased by RMB7.3 million, or approximately 235.5%, to RMB10.4 million in 2007 from RMB3.1 million in 2006, primarily due to the net foreign exchange gains of RMB6.5 million. This is mainly attributable to foreign exchange gains from the proceeds from the U.S. dollar denominated long-term loan with detachable warrants we borrowed in 2007 offset by foreign exchange loss from U.S. dollar denominated deposits.

Selling and marketing costs. Our selling and marketing costs decreased by RMB24.5 million, or approximately 29.1%, to RMB59.3 million in 2007 from RMB83.8 million in 2006. The decrease in selling and marketing costs was primarily due to a further decrease in advertising and other promotional costs of RMB9.7 million and a decrease in agency fee of RMB6.7 million.

Administrative expenses. Our administrative expenses increased by RMB75.7 million, or approximately 92.9%, to RMB157.2 million in 2007 from RMB81.5 million in 2006. The increase in administrative expenses was primarily due to an increase in donations of RMB34.6 million from RMB2.9 million in 2006, to various charities and social welfare organizations for the purpose of supporting philanthropic activities and increasing our contribution to the community in various areas in China, especially in the regions where we operate, an increase in legal and professional fees of RMB6.4 million relating to acquisition of equity interest in various companies that hold land use rights for the targeted land, and an increase in staff costs of RMB9.5 million.

Change in fair value of investment properties. Our increase in fair value of investment properties was RMB231.7 million in 2006 and RMB36.5 million in 2007. The increase in fair value in 2006 was primarily attributable to valuation of the commercial properties retained by us for leasing in Shenzhen Kaisa Center, which was completed in 2006. The increase in fair value in 2007 was primarily attributable to valuation of the commercial properties retained by us for leasing in Shenzhen Kaisa Center.

Change in fair value of financial derivatives. Our change in fair value of financial derivatives was RMB18.6 million in 2007. The change in fair value of financial derivatives in 2006 was nil because the relevant financial derivatives were issued in 2007. See "— Indebtedness — Long-term loan with detachable warrants."

Finance income. Our finance income decreased by RMB3.6 million, or approximately 28.6% to RMB9.0 million in 2007 from RMB12.6 million in 2006, despite the increases in interest rates. The decrease was primarily due to the decrease in interest income on bank deposits of proceeds from pre-sale of the properties developed by us. In particular, the funds raised in the financing of RMB1,476.0 million did not contribute significantly to the interest finance income as a significant portion has been allocated among various new land projects as equity, and thus any interest income associated is capitalized. The remaining portion that is not remitted was maintained offshore and was subject to relatively low USD interest rates.

Finance costs. Our finance costs increased by RMB22.2 million or approximately 73.5%, to RMB52.4 million in 2007 from RMB30.2 million in 2006. The increase was due to the increase in interest expense incurred net of the portion being capitalized in relation to bank borrowings used for financing our property development activities, which have not been capitalized as construction of the relevant property before the developments have been completed.

Income tax expenses. Our income tax expenses increased by RMB128.1 million, or approximately 98.0%, to RMB258.8 million in 2007 from RMB130.7 million in 2006. Our effective income tax rate increased to approximately 34.9% in 2007 from approximately 20.9% in 2006. The increase reflected our higher taxable income in 2007 and higher provision for LAT of RMB119.0 million due to higher gross margins from various projects delivered in 2007 as a result of higher average selling prices.

Profit for the year/period. As a result of the effect of the factors described above, our profit for the year decreased by RMB9.9 million, or approximately 2.0%, to RMB483.4 million in 2007 from RMB493.3 million in 2006. Our net profit margin was 20.6% in 2006 and 21.6% in 2007. The increase in our net profit margin from 2006 to 2007 was primarily attributable to the increase in our average selling price in 2007. Our net profit, excluding change in fair value on investment properties, change in fair value of financial derivatives and the corresponding deferred taxes, for 2006 and 2007 was RMB319.5 million and RMB470.0 million, respectively, resulting in the corresponding net profit margin (excluding change in fair value on investment properties, change in fair value of financial derivatives and the relevant deferred taxes) of 13.5% and 21.0% for 2006 and 2007, respectively.

CERTAIN BALANCE SHEET ITEMS

Land use rights

Land use rights represent our cost incurred in acquiring land use rights for the parcels of land in China for our residential and commercial property development over fixed periods. Our land use rights are divided into current and non-current assets. Land use rights are recorded in our current assets when the development of the relevant project are expected to be completed within a normal operating cycle, or else as non-current assets. Our normal operating cycle ranges typically from one to two years. As of December 31, 2006, 2007 and 2008 and June 30, 2009, we had respective total land use rights of RMB1,250.1 million, RMB3,218.4 million, RMB4,839.3 million and RMB4,642.6 million, of which RMB1,225.6 million, RMB3,194.6 million, RMB4,816.0 million and RMB4,619.7 million, respectively, were included in current assets, and RMB24.6 million, RMB23.8 million, RMB23.2 million and RMB22.9 million, respectively, were included in non-current assets. The fluctuation of our land use rights during the Track Record Period was primarily attributable to our land acquisition activities during the Track Record Period. The significant increase in land use rights in 2007 was primarily due to the cost incurred in acquiring land use rights for our nine property projects: Shangpin Garden, Zhongyang Haomen, Xiangrui Garden, Wanzai, Jingcheng Shanzhuang, Lijing Harbor, Shuangliu, Mingcui Garden and Huizhou Kaisa Center. The further increase in land use rights in 2008 was primarily due to the cost incurred in acquiring land use rights for our six property projects: Jiangyin Lake View Place, Changsha Lake View Place, Dongjiang Haomen, Huizhou Boluo, Huizhou Tonghu and Shanghai Shanhuwan Garden. The decrease in land use rights in the six months ended June 30, 2009 was primarily due to delivery of the properties in various projects, including Xiangrui Garden, Jiangyin Lake View Place Phase 1, Mingcui Garden Phase 1 and Shenzhen Lake View Place Phases 3–5, partially offset by the land cost with respect to Keyu Golden Bay Resort.

Completed properties held for sale

Completed properties held for sale include our completed properties remaining unsold at each of our balance sheet dates and are included in our consolidated balance sheet as current assets. They are stated at the lower of cost and net realizable value. Cost comprises development costs attributable to the unsold properties. Net realizable value is determined by reference to the sale proceeds of properties sold in our ordinary course of business, net of applicable selling expenses, or by management estimates based on prevailing market conditions. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our completed properties held for sale amounted to approximately RMB173.8 million, RMB171.2 million, RMB1,279.7 million and RMB988.7 million, respectively. The significant increase in completed properties held for sale in 2008, as compared to 2006 and 2007, was primarily attributable to Mingcui Garden Phase 1, which was completed in November 2008, a portion of Xiangrui Garden, which was completed in December 2008 and Shenzhen Lake View Place Phases 3–5, which were completed in fourth quarter of 2008. In the six months ended June 30, 2009, the decrease in completed properties held for sale was primarily attributable to the reduced completed properties held for sale in Mingcui Garden Phase 1, Xiangrui Garden and Shenzhen Lake View Place Phases 3–5, partially offset by the addition of completed properties held for sale in Jiangyin Lake View Place Phase 1, which was completed in April 2009.

Properties under development

Properties under development consist of properties for which we have obtained the relevant land use rights certificates. As of December 31, 2006, 2007 and 2008 and June 30, 2009, we had properties under development of RMB1,022.7 million, RMB2,134.9 million, RMB2,375.0 million and RMB2,708.0 million, respectively. The fluctuation of our properties under development during the Track Record Period was primarily attributable to the timing of our land acquisition and property delivery. The significantly increased properties under development as of December 31, 2007 and 2008 and June 30, 2009 as compared to those as of December 31, 2006 primarily reflected the increased capital expenditures in our new projects for which we commenced construction after December 31, 2006 and before June 30, 2009.

Certain sub-items under debtors, deposits and other receivables

Other receivables. Other receivables primarily consist of deposits paid for land acquisition, construction of our property projects and the operating leases and deposits paid to third parties for carrying out business opportunities which were not related to property development. As of December 31, 2006, 2007 and 2008 and June 30, 2009, we had other receivables of RMB382.1 million, RMB48.5 million, RMB49.9 million and RMB86.6 million, respectively. The significant decrease in our other receivables in 2007, as compared to 2006, was primarily due to the refund of deposits paid to third parties as we did not pursue those business opportunities. Our other receivables remained largely constant in 2007 and 2008. The increase in our other receivables in the six months ended June 30, 2009, as compared to 2008, was primarily attributable to our deposits paid in connection with land acquisitions and operating leases and receivables arising from termination of a land-related contractual arrangement. Prior to 2007, we made deposits to independent third parties for various business propositions, including those relating to proposed department store management services, proposed environmental protection consultancy services and proposed computer software development. After careful consideration, we decided not to pursue these business opportunities, primarily because none of them were related to our core competence in property development business. As of June 30, 2009, we had fully recovered all of our deposits paid to independent third parties for pursuing these proposed business opportunities. We had no receivables arising from termination of contractual arrangements as of December 31, 2006, 2007 and 2008, respectively, and RMB19.0 million of such receivables as of June 30, 2009.

Prepayments. Prepayments mainly represent prepayments for construction costs to third parties and professional fees in connection with [●]. As of December 31, 2006, 2007 and 2008 and June 30, 2009, we made prepayments for construction costs of RMB40.7 million, RMB282.5 million, RMB302.2 million and RMB270.8 million to third parties, respectively. The significant increase in our prepayments in 2007, as compared with our prepayments in 2006, was primarily due to our prepayment of RMB200.3 million paid to the contractor for the construction of our Shuangliu project. The prepayments remained relatively constant in 2007, 2008 and the six months ended June 30, 2009. As of June 30, 2009, our total prepaid professional fees in connection with [●] were RMB47.5 million.

Prepaid interest. Prepaid interest as of December 31, 2007 consisted of the payment of the two month interest arising from the long-term loan with detachable warrants, which did not exist as of December 31, 2006. Prepaid interest as of December 31, 2008 was of the same nature as that of the prepaid interest as of December 31, 2007.

Amounts due from related parties

Amounts due from related parties comprise amounts due from close family members of our Controlling Shareholders and companies controlled by our Controlling Shareholders. See the section entitled "Connected Transactions — Related Parties Transactions" in this document. The amounts due from related parties were unsecured, non-interest bearing and receivable on demand. The amounts due from related parties as of December 31, 2006 has been fully settled in cash. As of December 31, 2007 and 2008 and June 30, 2009, we did not have any amounts due from related parties.

Investment properties

We hold certain commercial properties which we developed for long-term investment purposes and recurring rental income. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our investment properties were valued at RMB482.1 million, RMB518.6 million, RMB1,278.4 million and RMB1,570.2 million, respectively, based on the revaluation by Savills Valuation and Professional Services Limited, independent property valuers. The increase of RMB36.5 million in our investment properties in 2007 as compared to 2006 was primarily due to the appreciation in the property value of our commercial properties in Shenzhen Kaisa Center in 2007. Our investment properties increased by RMB759.8 million in 2008, primarily due to the addition of the commercial properties in Guangzhou Jinmao into our investment property portfolio. The further increase in our investment properties as of June 30, 2009 was primarily due to the appreciation in the property value of our investment properties in Guangzhou Jinmao and addition of Woodland Height Phase 4 into our investment property portfolio.

Amounts due to related parties

Amounts due to related parties comprise amounts due to our Controlling Shareholders, their close family members, and the companies controlled by close family members of our Controlling Shareholders. See the section entitled "Connected Transactions — Related Parties Transactions" in this document. As of June 30, 2009, except for RMB0.3 million, all amounts due to related parties had been settled. We expect to fully settle the remaining amount of RMB0.3 million.

Other payables

Our other payables include payables and accruals to associated companies and third parties, purchase consideration for subsidiaries, refundable deposits received for renovation contracts and other taxes payables.

The following table presents our other payables composition for the periods indicated:

	As of December 31,			June 30,
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals	420,289	245,507	167,142	237,845
Associated companies	101,828	—	—	—
Third parties	318,461	245,507	167,142	237,845
Purchase consideration of subsidiaries	—	407,608	509,344	545,574
Refundable deposit received for renovation contract	—	250,000	198,998	152,896
Other taxes payable	1,377	16,157	5,292	8,515
	421,666	919,272	880,776	944,830

We had no trade payables balances as of December 31, 2006, 2007 and 2008 and June 30, 2009, respectively. With a view to maintaining long-term business relationships with our suppliers, we generally do not utilize the credit terms allowed by our suppliers and settle trade payables balances within a short period of time after receiving the invoices.

As of December 31, 2006, 2007 and 2008 and June 30, 2009, our other payables were RMB421.7 million, RMB919.3 million, RMB880.8 million and RMB944.8 million, respectively. The net increase in other payables of RMB497.6 million in 2007 as compared to 2006 was primarily attributable to the purchase consideration for subsidiaries of RMB407.6 million in connection with our land acquisitions and a refundable deposit of RMB250.0 million received under a renovation contract in connection with our development of Guangzhou Jinmao, and was partially offset by the decrease of RMB174.8 million in other payables and accruals. Our other payables decreased by RMB38.5 million in 2008 as compared to 2007, primarily attributable to a decrease of RMB100.0 million in our payables in connection with sales proceeds received from properties in Riverside Hill Town and a decrease of RMB51.0 million in refundable deposits received for renovation contract in connection with our development of Guangzhou Jinmao, partially offset by an increase of RMB101.7 million in purchase consideration of subsidiaries in connection with our land acquisitions. Our other payables increased by RMB64.1 million in the six months ended June 30, 2009 as compared to 2008, primarily attributable to the interest payables of RMB43.1 million under the long-term loan with detachable warrants, with respect to which the original due date of February 26, 2009 was extended to and settled on August 26, 2009 as a result of the restructuring of the long-term loan with detachable warrants. See "— Indebtedness — Long term loan with detachable warrants."

Other payables and accruals to associated companies primarily consisted of advances due to associated companies in relation to the acquisition of the associated companies. The amounts due to associated companies were unsecured, interest-free and had no fixed terms of repayment.

Other payables and accruals to third parties primarily included amounts received from our customers to pay for stamp duty on their behalf, note payables, proceeds from sales of properties in Riverside Hill Town for which we provided project consultancy services, deposits received from construction companies before they provided the relevant services to us, and deposits received from independent third parties for proposed business opportunities which were not related to property development.

We entered into a development cooperation agreement in 2005 with Dongguan Fenggang Real Estate Development Company ("Dongguan Fenggang"), an independent third party, under which we had the contractual right to develop Riverside Hill Town project in the name of Dongguan Fenggang. On January 23, 2008, we and Dongguan Fenggang entered into a supplemental agreement under which we terminated certain provisions of the original development cooperation agreement. See the section entitled "Business — Project Management and Consultancy Services" in this document. Under the original development cooperation agreement and prior to the supplemental agreement becoming effective, we had been responsible for sales of properties in Riverside Hill Town. As a result, we had received sales proceeds of RMB26.0 million from this project as of December 31, 2006, RMB122.5 million as of December 31, 2007, RMB22.5 million as of December 31, 2008 and RMB17.4 million as of June 30, 2009.

During the Track Record Period, we received deposits from independent third parties for considering various business propositions related to the construction materials related business. After careful consideration, we decided not to pursue these business opportunities primarily because they are not related to our core competence in the property development business. As of June 30, 2009, we had fully settled the related payables due to the independent third parties.

With respect to purchase consideration of subsidiaries of RMB545.6 million as of June 30, 2009, we subsequently paid with our internal funds approximately RMB146.8 million as of September 30, 2009. We intend to continue to use our internal funds to finance the remaining purchase consideration of subsidiaries of approximately RMB398.8 million as of September 30, 2009, of which approximately RMB271.9 million is expected to be settled by the end of 2009 and the remaining balance is expected to be settled in 2010.

LIQUIDITY AND CAPITAL RESOURCES

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

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions) (unaudited)	(RMB millions)
Net cash (used in)/generated from operating activities . . .	(27.9)	(1,243.5)	(1,986.9)	(1,399.0)	62.4
Net cash used in investing activities	(582.0)	(550.0)	(930.0)	(879.9)	(237.9)
Net cash generated from financing activities	893.6	2,861.4	1,982.2	1,190.5	231.1
Cash and cash equivalents at the end of the year/period . .	570.3	1,624.8	679.3	521.6	734.3

Operating activities

Net cash generated from operating activities in the six months ended June 30, 2009 was RMB62.4 million. Our net operating cash inflows in the six months ended June 30, 2009 were primarily attributable to (i) the net decrease in land use rights of RMB445.9 million resulting from delivery of properties in Jiangyin Lake View Place Phase 1, Xiangrui Garden and Mingcui Garden Phase 1, and (ii) the net decrease of RMB114.3 million in properties under development and completed properties held for sale primarily attributable to delivery of properties in Xiangrui Garden and Shenzhen Lake View Place Phases 4 and 5, partially offset by the development costs incurred in connection with Shangpin Garden and Jincui Garden. The cash inflow in the six months ended June 30, 2009 was partially offset by (A) the net increase in debtors, deposits and other receivables of RMB207.7 million mainly due to our land deposits made in relation to Guangzhou Jiangnan Boulevard for which we have entered into land grant contracts and were in process of obtaining land use rights certificates; (B) the net increase in restricted cash of RMB184.7 million primarily attributable to the increased restricted bank deposits, which were guaranteed for the benefit of note payables granted by the banks to the construction contractors of our property development; and (C) the net increase in prepayments for proposed development projects of RMB61.8 million in relation to our various land-related contractual arrangements.

We had net cash outflows from our operating activities of RMB1,399.0 million in the six months ended June 30, 2008 in contrast to net cash inflows from our operating activities of RMB62.4 million in the six months ended June 30, 2009. The increase in net cash generated from our operating activities was primarily due to the significantly increased proceeds from pre-sales of our properties and an decrease in our expenditure incurred in connection with our land acquisition and land-related contractual arrangements.

Net cash used in operating activities in 2008 was RMB1,986.9 million. Our net operating cash outflows in 2008 were primarily attributable to the following: (i) the net increase of RMB1,400.3 million in properties under development and completed properties held for sale (primarily due to the increased development costs in Mingcui Garden Phase 1, Xiangrui Garden, Shenzhen Lake View Place Phases 4–5, Lijing Harbor and Zhongyang Haomen Phase 1), offset by delivery of properties in Guangzhou Jinmao; (ii) the net increase in prepayments for proposed development projects of RMB708.0 million in relation to our various land-related contractual arrangements; (iii) the net decrease in other payables of RMB282.0 million primarily due to our payments to the independent third parties for their construction works for various projects; and (iv) the net decrease in advanced proceeds received from customers of RMB218.3 million primarily due to revenue recognition of sales proceeds upon the completion and delivery of the properties in Guangzhou Jinmao and Mocha Town Phase 7, which was partially offset by the advanced proceeds from pre-sales of Xiangrui Garden, Jiangyin Lake View Place Phase 1, Zhongyang Haomen Phase 1, Mingcui Garden Phase 1 and Shenzhen Lake View Place Phases 4 and 5. The cash outflow in 2008 was partially offset by (A) the increase in accrued construction costs of RMB568.6 million primarily due to an increase in property under development in Xiangrui Garden, Mingcui Garden Phases 1–3, Shenzhen Lake View Place Phases 2–5, Jiangyin Lake View Place Phase 1 and Lijing Harbor Phase 1; and (B) the net decrease in land use rights of RMB230.1 million resulting from delivery of properties in Guangzhou Jinmao, Mocha Town Phase 7, Mingcui Garden Phase 1 and Shenzhen Lake View Place Phases 3 and 4, partially offset by our acquisition of land use rights for Shanghai Shanhuwan Garden and Chengdu Shangmao Garden.

Net cash used in operating activities in 2007 was RMB1,243.5 million. Our net operating cash outflows in 2007 were primarily attributable to the following: (i) net increase of RMB907.2 million in our properties under development and completed properties held for sale (primarily due to the commencement of development of Mingcui Garden and Shenzhen Lake View Place Phase 3 in 2007); (ii) net increase in debtors, deposits and other receivables of RMB789.2 million, primarily due to the settlement of other receivables to third parties, which was offset by an increase in land deposits for the projects for which we received land grant contract or confirmation that we were selected as the winner of the land via listing-for-sale and were in process of obtaining the land use rights, including Changsha Lake View Place, and for the land acquisition arrangements through acquisition of equity interests in companies that hold the land use rights for certain parcels of land, including the acquisition of Jiangyin Taichang; (iii) net increase in prepayments for proposed development projects of RMB350.2 million for our various land-related contractual arrangements; and (iv) net increase of RMB276.7 million in the land use rights primarily resulting from obtaining the land use rights for Xiangrui Garden and Shangpin Garden, offset by delivery of Mocha Town Phases 5 and 6. The cash outflow in 2007 was partially offset by the increase in advanced proceeds received from customers of RMB600.2 million as a result of pre-sales of Mocha Town Phase 7, Shenzhen Lake View Place Phase 3 and Guangzhou Jinmao.

The increase in net cash used in our operating activities from RMB1,243.5 million in 2007 to RMB1,986.9 million in 2008 was primarily due to an increase in development costs which were in line with our enlarged scale of property development.

Net cash used in operating activities in 2006 was RMB27.9 million. Our net operating cash outflows in 2006 were primarily attributable to the following: (i) net increase in debtors, deposits and other receivables of RMB441.1 million mainly due to an increase in land deposits in relation to projects for which we have entered into land grant contracts and are in the process of obtaining land use rights certificates (including Mingcui Garden, Xiangrui Garden, Wanzai and Shangpin Garden); and (ii) net increase in prepayments for proposed development projects of RMB373.8 million for our various land-related contractual arrangements. The cash outflow in 2006 was partially offset by (A) net decrease in properties under development and completed properties held for sale of RMB326.6 million (was primarily due to delivery of properties that were pre-sold in 2005, including Shenzhen Kaisa Center and Woodland Height Phase 8); (B) net increase in other payables of RMB214.4 million, as a result of an increase in amounts due to third parties; and (C) net decrease in land use rights of RMB81.6 million resulting from the delivery of properties in Mocha Town Phases 3 and 4 and Shenzhen Lake View Place Phase 1, offset by the addition of land use rights for Guangzhou Kaisa Plaza.

The increase in net cash used in our operating activities from RMB27.9 million in 2006 to RMB1,243.5 million in 2007 was primarily due to an overall increase in the costs incurred in connection with our land acquisition activities during the year, including the land acquisition arrangements for Changsha Lake View Place, and the acquisition of equity interests in Jiangyin Taichang, and the acquisition of land use rights for Xiangrui Garden and Shangpin Garden, as described above.

Investing activities

During the Track Record Period, our cash inflows from investing activities reflected primarily amounts due from related companies, interest received on our bank deposits, proceeds from disposal of subsidiaries and proceeds from disposal of property and equipment. Our cash outflows from investing activities reflected investments in associated companies, acquisition of subsidiaries (net of cash acquired) and purchase of property and equipment.

In the six months ended June 30, 2009, our net cash used in investing activities was RMB237.9 million, which was primarily attributable to (i) the acquisition of subsidiaries, net of cash acquired, of RMB159.9 million, which was mainly due to our acquisition of Shenzhen Jinshawan, which owns and operates the Keyu Golden Bay Resort; and (ii) settlement of RMB63.8 million for acquisition of subsidiaries in prior years in connection with our land acquisitions through equity interest acquisitions of companies that hold land interest for the target land. For more detail of our acquisitions of subsidiaries, see the section entitled "History, Reorganization and Group Structure" in this document.

In 2008, our net cash used in investing activities was RMB930.0 million, which was primarily attributable to (i) acquisition of subsidiaries, net of cash acquired, of RMB824.7 million and (ii) settlement of RMB68.3 million for acquisition of subsidiaries in prior years, both of which were mainly due to our acquisitions of certain subsidiaries in connection with our land acquisitions, as disclosed in the section entitled "History, Reorganization and Group Structure" in this document.

In 2007, our net cash used in investing activities was RMB550.0 million, which was primarily attributable to acquisition of subsidiaries, net of cash acquired, of RMB1,029.6 million, which was mainly due to acquisition of certain subsidiaries which own land interests, as disclosed in the section entitled "History, Reorganization and Group Structure" in this document. This outflow was partially offset by the following factors: (A) proceeds from the disposal of subsidiaries of RMB86.6 million in connection with the preparation for the Reorganization and (B) a net decrease in amount due from related companies of RMB391.7 million.

In 2006, our net cash used in investing activities was RMB582.0 million, which was primarily due to (i) the increase in amount due from related companies of RMB240.1 million; (ii) acquisition of subsidiaries, net of cash acquired, of RMB223.2 million; and (iii) investment of RMB102.2 million in two associated companies, namely Shenzhen Jiachangxin Investment and Shenzhen Jiachangxin Property.

Financing activities

During the Track Record Period, our cash generated from financing activities consisted primarily of bank borrowings to finance our property development, advances from related parties and proceeds from the long-term loan with detachable warrants, proceeds from financial derivatives, and proceeds from the issue of share capital. Our cash used in financing activities consisted of repayment of borrowings, amounts due to related companies and amounts due to an associated company. As a result of the restructuring of the long-term loan with detachable warrants, we are obligated to repay the total principal amount of the Loan of US$200 million with an interest rate of 8.8% per annum during the period from October 27, 2009 to December 1, 2010 according to the payment schedule set forth in the relevant amendment agreement and subject to certain prepayment provisions. See "— Indebtedness — Long-term loan with detachable warrants" and the section entitled "History, Reorganization and Group Structure — Strategic Investments" in this document.

In the six months ended June 30, 2009, our net cash generated from financing activities was RMB231.1 million, which was primarily due to net proceeds of RMB1,622.6 million from borrowings for the development of our properties, partially offset by repayment of borrowings of RMB1,390.0 million.

In 2008, our net cash generated from financing activities was RMB1,982.2 million, which was primarily attributable to net proceeds of RMB3,914.0 million from borrowings to finance our property development, partially offset by repayment of borrowings of RMB1,932.6 million.

In 2007, our net cash generated from financing activities was RMB2,861.4 million, which was primarily due to (i) net proceeds of RMB1,406.1 million from borrowings for the development of our properties; (ii) net proceeds from the long-term loan with detachable warrants of RMB1,353.2 million; (iii) net proceeds of RMB99.3 million from financial derivatives, and (iv) net proceeds of RMB1,490.8 million from the issuance of share capital to the Investor Shareholders. This inflow was partially offset by (i) repayment of borrowings of RMB577.0 million; (ii) settlement of amounts due to related parties of RMB821.7 million; and (iii) settlement of amounts due to an associated company of RMB101.8 million.

In 2006, our net cash generated from financing activities was RMB893.6 million, which was primarily due to the net proceeds of RMB1,518.1 million from borrowings for the development of our properties and increase in amounts due to an associated company of RMB101.8 million, which was in relation to the acquisition of associated company during the year. This was partially offset by repayment of borrowings of RMB561.6 million and settlement of amounts due to related parties of RMB164.7 million.

Net current assets

The following table sets out our current assets, current liabilities and net current assets as of September 30, 2009:

	As of September 30, 2009
	(RMB in thousands) (unaudited)
Current assets	
Land use rights	4,488,179
Properties under development	2,719,926
Completed properties held for sale	1,254,630
Debtors, deposits and other receivables	1,743,894
Prepayments for proposed development projects	1,207,258
Prepaid taxes	180,915
Restricted cash	434,830
Cash and cash equivalents	1,128,952
Total	13,158,584
Current liabilities	
Advanced proceeds received from customers	1,397,117
Accrued construction costs	1,124,991
Income tax payable	312,432
Borrowings	2,915,569
Long-term loan with detachable warrants	1,347,747
Financial derivatives	123,194
Other payables	752,904
Amounts due to related parties	81
Total	7,974,035
Net current assets	5,184,549

Capital commitment

Commitments for property development expenditure

We incur capital expenditure primarily for our property development. Our commitments for property development expenditure as of December 31, 2006, 2007 and 2008 and June 30, 2009 were RMB1,933.0 million, RMB5,585.8 million, RMB7,300.7 million and RMB4,591.7 million respectively. The significant increase in our commitments for property development expenditure as of December 31, 2007, compared with our commitments as of December 31, 2006, was primarily due to our commitments for land-related contractual arrangements. Our commitments for property development expenditures as of December 31, 2008 further increased to RMB7,300.7 million, primarily due to (i) our commitments for the construction costs, which were in line with our enlarged scale of property development; and (ii) our commitments arising from land-related contractual arrangements. Our commitments for property development expenditure as of June 30, 2009 decreased to RMB4,591.7 million primarily because we terminated certain land-related contractual arrangements pursuant to the respective termination agreements with the counterparties. For more detail of our land-related contractual arrangements, see the section entitled "Business — Other Contractual Arrangements" in this document.

The following table sets forth the commitments for our property development expenditure as of the dates indicated:

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Contracted but not provided for	1,933,025	5,585,773	7,300,651	4,591,724

We expect to finance the outstanding capital commitment of RMB4,591.7 million as of June 30, 2009 through our internal funds, bank borrowings, the Loan and proceeds from pre-sales and sales of properties. We expect that approximately RMB1,606.2 million, RMB1,344.0 million and RMB736.8 million of the outstanding capital commitment as of June 30, 2009 will be paid by December 31, 2009, 2010 and 2011, respectively. The remaining RMB904.7 million is expected to be paid by December 31, 2013. As our payment obligations are conditional upon the occurrence of certain events as prescribed in the relevant contractual documents, the expected payment schedule above with respect to our total outstanding capital commitment as of June 30, 2009 may be adjusted as necessary.

Operating lease commitments

The following table sets forth our future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as of the dates indicated:

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
No later than one year	722	1,990	9,617	12,785
Later than one year and not later than five years	186	2,941	9,950	11,829
Later than five years	—	—	1,315	136
Total	909	4,931	20,882	24,750

As of December 31, 2006, 2007 and 2008 and June 30, 2009, our operating lease commitments were RMB0.9 million, RMB4.9 million, RMB20.9 million and RMB24.8 million, respectively. The increase in the operating lease commitments as of December 31, 2007, as compared with our operating lease commitments as of December 31, 2006, was primarily due to our outstanding commitment of RMB1.3 million no later than one year and our outstanding commitment of RMB2.8 million between one year to five years, both of which are for a long-term lease we entered into with respect to an office premises in Chengdu, Sichuan Province. The increase in the operating lease commitments as of

December 31, 2008, as compared with those as of December 31, 2007, was primarily due to the long-term leases we entered into with respect to our office premises in Shanghai, Shenzhen and Hong Kong. The further increase in the operating lease commitments as of June 30, 2009, as compared with those as of December 31, 2008, was primarily attributable to a long-term lease we entered into with respect to the additional office premises in Hong Kong.

Capital resources and cash management

Property development projects require substantial capital expenditure for land acquisition and construction. The financing methods for our projects vary and are subject to limitations imposed by PRC regulations and monetary policies. Historically, we have primarily financed our expenditures and working capital through internal funds, proceeds from pre-sales and sales of properties and borrowings from banks. Our cash flow and results of operations of our operating subsidiaries affect our liquidity. See the section entitled "Risk Factors — We had 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" in this document.

We seek to manage our working capital to ensure collection and deployment of our funds. We use our annual budget, supplemented by our quarterly cash flow projections, to forecast and manage our cash inflows and outflows. In addition, we prepare cash flow projections on a monthly basis to monitor our cash flow in connection with land acquisition, construction cost payments, financings, repayments of loans, taxes and other expenses. Our finance division also prepares daily cash flow summaries for our senior management to monitor and manage daily collection and use of cash. All disbursement of funds for land acquisition are subject to the final approval of our Chairman.

We seek to manage the level of our liquid assets to ensure the availability of sufficient cash flows to meet any unexpected cash requirements arising from our business. In addition, we seek to effectively manage our future cash flows and reduce our exposure to unexpected adverse changes in economic conditions through a number of alternative plans, including adjusting our development schedule to ensure that we have available resources to finance our projects, implementing cost control measures, adopting more flexible approach to pricing for our property sales, and renegotiating payment terms with counterparties in certain land-related contractual arrangements. We will continue to assess these alternative plans on an ongoing basis and may choose to adopt them if necessitated by our then-existing financial conditions and cash requirements.

We monitor our capital and indebtedness level by reviewing our gearing ratio, which is equal to net debt divided by total capital. See the section entitled "Financial Information — Indebtedness — Gearing Ratio" in this document for further discussion on the change in our gearing ratio during the Track Record Period. Our gearing ratio, as of December 31, 2006, 2007 and 2008 and June 30, 2009, was 74%, 53%, 65% and 63%, respectively. Going forward, we aim to maintain a gearing ratio of between 50% and 70%. We also monitor our indebtedness level generally through monthly review of our management accounts including balance sheets, income statements and cash flow statements to assess our financial condition and maintain our indebtedness at a reasonable level.

We expect to repay our outstanding bank loans and other indebtedness in accordance with the repayment schedules of the respective loan agreements. We expect to have continuous access to bank loans in the foreseeable future. Although there may not be sufficient funding from our operations to support the repayment of our indebtedness, as indicated by the continuous operating cash outflows in

2006, 2007, 2008 and the six months ended June 30, 2009, we believe we have sufficient working capital to meet our cash requirements and foreseeable debt repayment obligations (including the Loan of US$200 million and the accrued interests at an interest rate of 8.8% per annum) for the 12 months from the date of this document.

Working capital

As of December 31, 2006, 2007, 2008 and June 30, 2009, our aggregate cash and cash equivalents amounted to RMB570.3 million, RMB1,624.8 million, RMB679.3 million and RMB734.3 million, respectively, which were subject to PRC foreign exchange controls had any such cash and cash equivalents been exchanged into foreign currencies or remitted outside of China. As of September 30, 2009, we had cash and bank balances of RMB1,563.8 million (including restricted cash of RMB434.8 million) and unutilized available banking facilities in the aggregate of RMB410.0 million.

INDEBTEDNESS

Borrowings

Our borrowings are denominated in Renminbi, which is also our functional currency as we principally engage in business operations in the PRC. The following table sets forth our outstanding borrowings as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2006	2007	2008	2009	2009
	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions) (unaudited)
Borrowings included in non-current liabilities:					
Bank borrowings — secured . .	291.0	600.0	1,232.8	2,650.8	3,187.8
Bank borrowings — unsecured	786.0	760.0	1,484.6	—	—
Other borrowings — secured. .	274.5	274.5	274.5	—	—
	1,351.5	1,634.5	2,991.9	2,650.8	3,187.8
Borrowings included in current liabilities:					
Bank borrowings — secured . .	270.0	600.0	990.0	814.6	1,246.4
Bank borrowings — unsecured	740.0	976.0	1,210.0	1,684.6	1,394.6
Other borrowings — secured. .	—	—	—	274.5	274.5
	1,010.0	1,576.0	2,200.0	2,773.7	2,915.5

Our outstanding bank and other borrowings amounted to RMB2,361.5 million, RMB3,210.5 million, RMB5,191.9 million and RMB5,424.5 million, respectively, as of December 31, 2006, 2007 and 2008 and June 30, 2009. The increase in our bank and other borrowings during the Track Record Period was primarily due to additional funds needed for our acquisition of land reserves for future development (excluding payments for land premiums) and financing new development projects. We used the proceeds from these borrowings to finance our property development and for corporate and working capital purposes. For 2006, 2007 and 2008 and the six months ended June 30, 2009, the effective interest rate was approximately 6.1%, 6.7%, 7.9% and 5.9%, respectively, for our bank borrowings, included in non-current liabilities and approximately 5.8%, 6.2%, 7.4% and 5.7%, respectively, for our bank borrowings, which was included in current liabilities; and approximately 8.0%, 8.0%, 8.0% and 8.0%, respectively, for other borrowings. Changes in interest rates have affected and will continue to affect our financing costs and, ultimately, our results of operations. In 2006, the PBOC raised the benchmark one-year lending rate twice from 5.58% to 6.12%. In 2007, the PBOC increased the one-year lending rate six times from 6.12% to 7.47%. Beginning in 2008, the PBOC decreased the benchmark one-year lending rate five times, from 7.47% to 5.31%. The benchmark one-year lending rate applicable in June 2009 was 5.31%. As commercial banks in China link the interest rates on their loans to benchmark lending rates published by the PBOC, any increase in such benchmark lending rates will increase the interest costs for our developments.

Our Directors confirm that we have not experienced any delay or default in repayment of bank borrowings during the Track Record Period.

Commercial banks in China typically require guarantees or security interests for our borrowings. As of December 31, 2006, 2007 and 2008 and June 30, 2009, RMB561.0 million, RMB1,200.0 million, RMB2,222.8 million and RMB3,372.8 million, respectively, of our outstanding bank borrowings were jointly secured by certain properties and land use rights owned by us. As of June 30, 2009, RMB92.6 million of our outstanding bank borrowings were secured by our cash in bank accounts. As of the Latest Practicable Date, guarantees for our borrowings by certain related parties had all been released. Other borrowings from third parties are secured, interest-bearing at 8%, with a maturity date in 2010.

The other borrowings arose from our certain financing arrangements. In 2004 and 2005, we sold 1,804 retail units in Phase 6 of our Woodland Height project to 1,443 independent third-party purchasers, who hold put options under the relevant sale and purchase agreements. The exercise price of the put options was the purchase price set forth in the relevant sale and purchase agreements and there was no option redemption provision in these sale and purchase agreements and the relevant supplemental agreements. The option exercise period is set from December 1, 2009 to March 1, 2010. 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. Pursuant to the relevant cooperation agreements, we have paid each purchaser a lump sum amount equal to three-year return at 8% annual rate on the unit purchase price and will make quarterly payments at the same 8% annual rate for the subsequent seven years. If the put option is exercised by a purchaser, our leasing management services under the relevant cooperation agreement will be terminated. If the put option is not exercised during the option exercise period, our leasing management services will continue to be in effect until the expiration of the 10-year period in 2015. Shenzhen Kaisa Property acted as a guarantor with respect to the annual return to each purchaser. The sale of these retail units did not meet certain conditions for revenue recognition in accordance with Hong Kong Accounting Standard 18 as the significant risks of the ownership were not passed on to the purchasers of the units. As a result, the transactions as described above did not give rise to revenue recognition although legal title to these units were transferred to the purchasers of the retail units. The asset values of these units, with an aggregate amount of RMB71.4 million, were recorded at cost as "completed properties held for sale" as of each of the balance sheet dates during the Track Record Period. These transactions, as a whole, would be regarded as the financing arrangements before the expiration of the put option and recognized as other borrowings with an interest charged at 8% per annum. The sale proceeds from the retail units would be either returned to the purchasers upon their exercise of the put options from December 1, 2009 to March 1, 2010, or be recognized as our revenue after the expiration of the put options on March 2, 2010. Before entering into these arrangements, we engaged an independent third-party property valuer to perform a valuation of the retail units in Woodland Height Phase 6 in August 2004, and also conducted research on the comparable properties in Longgang district. Based on the valuation of the units by the property valuer and our research, we determined a reasonable selling price per sq.m. for the retail units. Our Directors are of the view that the retail units were sold at the then prevailing market value. We entered into these financing arrangements for the following purposes: (i) increasing our cash inflows in 2004 and 2005, (ii) expediting the sales of the units by granting to the purchasers put options and providing to them our leasing management services, and (iii) retaining the right to manage these units which we believe to have long-term potential for leasing. The rental income we received from these retail units, however, had not covered our payment of 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, 2008 and the six months ended June 30, 2009, respectively, as a result of our payments of the guaranteed 8% annual rate of return. As of June 30, 2009, all of the retail units were rented. According to our PRC legal adviser, the financing arrangement as described above is legal, valid, binding and enforceable, and is in compliance with relevant PRC laws and regulations. Each of Mr. Kwok Ying Shing, Mr. Kwok Ying Chi and Mr. Kwok Chun Wai has entered into a deed of indemnity in favor of us to provide indemnities against, among other things, any losses, damages, penalties and fines which might be payable by us if these financing arrangements are deemed not in compliance with any applicable laws and regulations. Considering our PRC legal adviser's opinion and the indemnity given by each of Mr. Kwok Ying Shing, Mr. Kwok Ying Chi and Mr. Kwok Chun Wai above, our Directors are of the view that, if these financing arrangements are deemed not in compliance with any applicable laws and regulations, the associated risks are not material to our business, results of operations and financial condition. We do not intend to enter into financing arrangements of the same or a similar nature with respect to our other properties in future. See the section entitled "Risk Factors — Risks Relating to Our Business — 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 this document.

Our bank borrowings are primarily used for our property developments. When applying the bank loans to finance a project, we refer to our property development schedule for the project to determine the maturity date of such loans. During the Track Record Period, most of our property developments were residential projects that were completed or expected to be completed within two years. The table below sets forth the maturity profiles of our borrowings included in non-current liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2006	2007	2008	2009	2009
	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions) (unaudited)
Between one and two years. . .	990.0	1,360.0	2,619.1	1,672.8	1,436.6
Between two and five years . .	361.5	274.5	372.8	685.0	1,212.2
Over five years	—	—	—	293.0	539.0
Total borrowings	1,351.5	1,634.5	2,991.9	2,650.8	3,187.8

As of September 30, 2009, we had total bank borrowings in an aggregate amount of RMB5,828.8 million, which comprised RMB2,641.0 million included in the current liabilities and RMB3,187.8 million included in the non-current liabilities. As of September 30, 2009, we had the Loan with the total outstanding amount of RMB1,347.7 million. In addition, as of September 30, 2009, we had available banking facilities of an aggregate amount of approximately RMB6,238.8 million, of which approximately RMB410.0 million were unutilized.

Long-term loan with detachable warrants

On August 24, 2007 ("First Drawdown Date"), we entered into a 36-month US$25,000,000 term loan. On September 12, 2007 ("Second Drawdown Date"), the terms of the Loan were amended and restated whereby (i) the amount of the Loan was increased to US$200,000,000 and (ii) two tranches of detachable warrants were issued to the Warrantholders (other than Forum) (the agreements regarding the loan and the detachable warrants are collectively referred to as "Loan Plus Warrant Agreements"). The Loan was amended on October 24, 2009.

For information related to the Loan and the two tranches of warrants, see the subsections entitled "Senior secured term loan facility" and "Detachable Warrants" in the section entitled "History, Reorganization and Group Structure — Strategic Investments" in this document.

The net proceeds received from the Loan Plus Warrant Agreements have been split among an equity component, a liability component, derivative financial instruments and a number of embedded financial derivatives as follows:

- Liability component represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives. The interest charged for the year is calculated by applying an effective interest rate of approximately 13.5% per annum to the liability component since the Loan was issued. Interest of 8.8% per annum is paid in accordance to the Loan Plus Warrant Agreements.

- Financial derivatives comprise of:

  (a) Derivative financial instruments represent the fair value of Tranche B Warrant.

  (b) Embedded derivatives, comprising:

    (i) The fair value of the option of the Lenders to require our Company to prepay a portion of the loan amount in the case of QIPO;

    (ii) The fair value of the option of the Lenders to require our Company to prepay the entire loan amount in the event of the change of control and an initial public offering other than QIPO;

    (iii) The fair value of the option of our Company to prepay the loan amount on any interest payment date after the QIPO; and

    (iv) The fair value of the option of our Company on additional rights of prepayment and cancellation.

- Equity component represents Tranche A Warrants.

The movements of the liability and derivative components of the Loan Plus Warrant Agreements are set out as below:

	Liability component	**Derivative component**
	(RMB millions)	**(RMB millions)**
Amount initially recognized	1,353.2	99.3
Interest charged	61.9	—
Interest paid	(40.6)	—
Change in fair value	—	18.6
Exchange difference	(16.5)	(1.2)
At December 31, 2007	1,358.0	116.7
Interest charged	179.3	—
Interest paid	(126.9)	—
Change in fair value	—	(27.2)
Exchange difference	(104.9)	(9.0)
At December 31, 2008	1,305.5	80.5
Interest charged	90.5	—
Interest paid/payable	(63.4)	—
Charge in fair value	—	19.9
Exchange difference	1.1	0.1
At June 30, 2009	1,333.7	100.5

As a result of the global economic slowdown and crisis in the global financial markets in 2008, we were in breach of certain terms and covenants of the Loan Plus Warrant Agreements. We have obtained the waiver from the Lenders with respect to breach of these terms and covenants. For more details on the relevant breaches and waiver, see the section entitled "History, Reorganization and Group Structure — Strategic Investments — Breach of certain covenants and waiver" in this document.

In accordance with the waiver from the Lenders and the relevant amendment agreement, certain terms and covenants of the Loan Plus Warrant Agreements have been amended and the key changes are summarized as follows:

- the maturity date of the Loan has been extended to December 1, 2010;
- our Company must repay the Loan on the following dates in the following amounts:

Repayment Date	Repayment Installment
October 27, 2009	US$30,000,000
December 31, 2009	US$20,000,000
March 31, 2010	US$14,000,000
June 30, 2010	US$14,000,000
September 30, 2010	US$14,000,000
December 1, 2010	the outstanding balance of the Loan in full;

- the prepayment right by the Lenders at the date falling 28 months after August 24, 2007 has been eliminated. Instead, if no QIPO occurs by December 1, 2010, the final maturity date of the Loan, our Company agreed to pay to each Lender an amount which would yield an internal rate of return (as described below) of such Lender's participation in the Loan in whole excluding any fees previously paid;
- the internal rate of return applicable to (i) a change of control event, (ii) nonoccurrence of QIPO by December 1, 2010, and (iii) an IPO that does not meet the requirements of QIPO (in this case, if our Company requests an amendment to the Loan Plus Warrant Agreements and such amendment takes effect on the date when our Shares are listed) has been amended as follows:
  - — in respect of the period from (and including) August 24, 2007 to (and including) February 28, 2009, an internal rate of return is 15% per annum; and
  - — in respect of the period from (and including) March 1, 2009 to (and including) December 1, 2009, an internal rate of return is 17% per annum;
- our Company shall make a prepayment of US$50,000,000 to the Lenders on the listing date of an initial public offering on the Stock Exchange, Singapore Stock Exchange, London Stock Exchange, NASDAQ, New York Stock Exchange or such other internationally recognized securities exchanges;
- the expiry date of both tranches of the Warrants has been extended to December 1, 2010. The predetermined strike price of Tranche B Warrants has been eliminated; and

- our Company has paid to the Lenders US$500,000 as the consent fee for amendments to the Loan Plus Warrant Agreements.

Given the unprecedented nature of the recent global economic slowdown and financial crisis, the measures taken to ensure our ongoing compliance with the financial covenants and our endeavor to effectively manage our future cash flows and reduce our exposure to unexpected adverse changes in economic conditions through a number of alternative plans, we do not expect any future default of the financial and non-financial covenants to occur under the Loan Plus Warrant Agreements or other loan agreements.

For more details on the long-term loan with detachable warrants, including our breach of certain financial covenants and non-financial covenants under the Credit Agreement, see the section entitled "History, Reorganization and Group Structure — Strategic Investments" in this document.

Gearing ratio

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

The following table sets out our gearing ratios as of the dates indicated:

	As of December 31,			As of June 30,
	2006	2007	2008	2009
	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions)
Total borrowings	2,361.5	3,210.5	5,191.9	5,424.5
Long-term loan with detachable warrants	—	1,358.0	1,305.5	1,333.7
Less: cash and cash equivalents	(570.3)	(1,624.8)	(679.3)	(734.3)
Net debt	1,791.3	2,943.8	5,818.2	6,024.0
Total equity	643.0	2,609.1	3,101.5	3,469.4
Total capital	2,434.3	5,552.9	8,919.7	9,493.4
Gearing ratio	74%	53%	65%	63%

In 2007, the decrease in our gearing ratio was primarily attributable to the significant increase in our total capital in 2007 as a result of the investment, and the increased utilization of our internal funds in financing our property development, while our net debt increased in 2007 in accordance with our enlarged scale of property development. In 2008, the increase in our gearing ratio was primarily attributable to an increase in our bank borrowings from 2007 to 2008 primarily for financing the construction of our properties, and the greater increase in cash outflow primarily for financing the development of our new projects, as compared to the increase in the proceeds from pre-sales of our properties in 2008. In the six months ended June 30, 2009, the decrease in our gearing ratio was primarily attributable to our increased total equity as a result of an increase in our retained earnings.

Current ratio

Current ratio is calculated as current assets divided by current liabilities. As of December 31, 2006, 2007 and 2008 and June 30, 2009, our current ratio was 1.38, 2.06, 1.68 and 1.60, respectively. The significant increase in our current ratios from December 31, 2006 to December 31, 2007 was primarily due to the increase in certain current assets, including land use rights, properties under development and debtors, deposits and other receivables, our increased utilization of long-term borrowings and loans, and our internal funds for financing our property development. The decrease in our current ratio from December 31, 2007 to December 31, 2008 was primarily due to the greater increase in current liabilities compared with current assets. The increase in current liabilities as of December 31, 2008 were primarily attributable to the long-term loan with detachable warrants, which was classified into current liabilities before the completion of our restructuring of this loan in October 2009. For more detail, see "— Indebtedness — Long term loan with detachable warrants." Our current ratio as of December 31, 2008 and June 30, 2009 remained largely constant.

FINANCIAL GUARANTEES

We typically arrange for various banks to provide mortgage loans to the purchasers of our properties who require mortgage loans. In accordance with market practice, we make arrangements with various domestic banks to provide mortgage facilities to purchasers of our properties. Furthermore, we are required to provide guarantees to these banks in respect of mortgages offered to our customers. Pursuant to the terms of the guarantees, upon default in mortgage payments by a purchaser, we would be responsible for repaying the outstanding mortgage principal together with accrued interest and penalties owed by the defaulting purchaser to the bank, and we would be entitled to assume legal title to and possession of the related property. These guarantees will be 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. If a purchaser defaults on the mortgage payment, we may be required to repurchase the underlying property by paying off the mortgage loan. If we fail to do so, the mortgagee bank may auction the underlying property under the relevant PRC laws and regulations and recover the balance from us if the outstanding loan amount exceeds the net foreclosure sale proceeds. In line with industry practice, we do not conduct independent credit evaluations on our customers but rely on the credit checks conducted by the mortgagee banks.

Each of our guarantees is generally issued from the date of the grant of the relevant mortgage loan and released upon the earlier of (i) the satisfaction of the mortgage loan by the purchaser of the property and (ii) the issuance of property ownership certificate for the mortgaged property, which is generally available within six months to one year after the purchaser takes possession of the relevant property. As of December 31, 2006, 2007 and 2008 and June 30, 2009, the outstanding guarantees for mortgage loans of the purchasers of our properties were equal to RMB1,267.5 million, RMB873.9 million, RMB1,629.0 million and RMB2,444.1 million, respectively. The fluctuation of our financial guarantees during the Track Record Period was in line with our pre-sales and sales activities and affected by the timing of our property delivery. Our financial guarantees as of December 31, 2006 consisted primarily of outstanding guarantees for mortgage loans of the purchasers of the properties in our Woodland Height Phase 8, Mocha Town Phase 4, Shenzhen Kaisa Center and Shenzhen Lake View Place Phase 1. Our financial guarantees as of December 31, 2007 consisted primarily of outstanding guarantees for mortgage loans of the purchasers of the properties in our Mocha Town Phase 6 and Shenzhen Lake View Place Phase 2. Our financial guarantees as of December 31, 2008 consisted primarily of outstanding guarantees for mortgage loans of the purchasers of the properties in Mocha Town Phase 7, Mingcui Garden Phase 1, Jiangyin Lake View Place Phase 1, Xiangrui Garden and Shenzhen Lake View Place Phases 4 and 5. Our financial guarantees as of June 30, 2009 consisted primarily of outstanding guarantees for mortgage loans of the purchasers of the properties in Xiangrui Garden, Mingcui Garden Phases 1 and 2, Shenzhen Lake View Place Phases 4 and 5, Jiangyin Lake View Place Phase 1, Mocha Town Phase 7 and Dijingwan. Our Directors consider that if default occurs, the net realizable value of the related property can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalties and therefore no provision has been made in the financial statements for these guarantees. During the Track Record Period, we have not experienced any instances where we had to honor our guarantee obligations as a result of a failure by our customers to repay their mortgage loans. We had outstanding financial guarantees of RMB2,138.4 million as of September 30, 2009, and expect that most of such outstanding guarantees will be released by the end of 2010.

We had the following financial guarantees as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2006	2007	2008	2009	2009
	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions) (unaudited)
Guarantees in respect of mortgage facilities for certain purchasers of the property units	1,267.5	873.9	1,629.0	2,444.1	2,138.4

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

MARKET RISKS

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

Interest rate risk

We are exposed to interest rate risks, primarily relating to our bank borrowings and long-term loan with detachable warrants subject to negotiation on annual basis. We undertake debt obligations to support our property development and general working capital needs. Upward fluctuations in interest rates increase the cost of our financing. Fluctuations in interest rates can also lead to fluctuations in the fair value of our debt obligations. In 2006, the PBOC raised the benchmark one-year lending rate twice from 5.58% to 6.12%. In 2007, the PBOC increased the one-year lending rate six times from 6.12% to 7.47%. Beginning in 2008, the PBOC decreased the benchmark one-year lending rate five times, from 7.47% to 5.31%. The benchmark one-year lending rate applicable in June 2009 was 5.31%. Our income and operating cash flows are substantially independent of changes in market interest rates. We do not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk. However, our management will consider hedging significant interest rate exposure should the need arise.

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

Other price risk

We are exposed to financial derivatives price risks arising from the derivative financial instruments and embedded financial derivatives. The fair values of these instruments were calculated by an independent appraiser.

Commodities risk

We are exposed to fluctuations in the prices of raw materials for our property developments, primarily steel and cement. The purchase cost for such materials are generally accounted for as part of the contractor fees pursuant to our arrangements with the relevant contractors. We satisfy the remaining requirements for these materials through our construction and other contractors. Accordingly, rising prices for construction materials will affect our construction costs in the forms of increased fees payable to our contractors. As a result, fluctuations in the prices of our construction materials have a significant impact on our results of operations.

Foreign exchange risk

Substantially all of our revenues and expenses are denominated in Renminbi. A depreciation of Renminbi would adversely affect the value of any dividends we pay to our offshore Shareholders. In addition, we are subject to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities such as cash and cash equivalent and long-term loan which are denominated in a currency that is not Renminbi. The majority of our foreign currency transactions and balances are denominated in Hong Kong dollars and U.S. dollars. We currently do not have a foreign currency hedging policy. However, we may choose to use hedging transactions to reduce our exposure to foreign exchange rate fluctuations in the future. Because Renminbi is not freely convertible, our ability to reduce the foreign exchange risk is limited. You should refer to "Risk Factors — Risks Relating to China — Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries" in this document for additional risk disclosure.

Inflation

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

PROFIT FORECAST

We forecast that, on certain bases, profits attributable to equity holders of our company for the year ending December 31, 2009 is unlikely to be less than RMB[●] million, or RMB[●] million excluding the change in fair value of investment properties and change in fair value of Detachable Warrants.

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. For information on the GFA which have been pre-sold, please refer to the summary table entitled "Properties Under Development" in the section entitled "Business" in this document.

We had a total saleable GFA of approximately 338,967 sq.m. of completed properties held for sale as of December 31, 2008. The table below sets forth certain information, as of September 30, 2009, for our property projects or project phases which have been or are expected to be completed in the year ended December 31, 2009:

					Saleable GFA					
Project	**Location**	**Project phase**	**Total GFA or estimated total GFA**	**Saleable GFA or estimated saleable GFA**	**Residential**	**Office**	**Retail**	**Car parking space**	**Interest attributable to us**	**Completion time or estimated completion time**
			(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)		
Xiangrui Garden (香瑞園) . . .	Shenzhen	—	76,502	51,068	50,082	—	986	—	100%	February 2009[1]
Mingcui Garden (茗萃園). . . .	Shenzhen	2	102,527	97,871	88,620	—	9,251	—	100%	August 2009
Jiangyin Lake View Place (江陰水岸新都)	Jiangyin	1	107,986	87,297	87,297	—	—	—	100%	July 2009[2]
Zhongyang Haomen (中央豪門)	Dongguan	1	69,166	67,446	60,834	—	6,611	—	100%	June 2009
Zhongyang Haomen (中央豪門)	Dongguan	2	66,485	65,300	59,881	—	5,418	—	100%	December 2009
Total			422,666	368,981	346,715	—	22,267	—		

Notes:

(1) *We had completed a portion of this project in December 2008 with a total GFA of 67,294 sq.m. and the remaining portion in February 2009 with a total GFA of 76,502 sq.m.*

(2) *We had completed a portion of this project phase in April 2009 with a total GFA of 71,254 sq.m. and the remaining portion in July 2009 with a total GFA of 36,733 sq.m.*

DIVIDENDS AND DISTRIBUTABLE RESERVES

No dividend was paid or declared by our Company in 2007 and 2008 and the six months ended June 30, 2009.

Subject to the Companies Law and through a general meeting, we may declare dividends in any currency but no dividend may be declared in excess of the amount recommended by our Board. Our Memorandum and Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except so far as the rights attaching to, or the terms of issue of, any Shares that may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any of our Shareholders or in respect of any Shares all sums of money (if any) presently payable by him or her to us on account of calls or otherwise. In addition, the declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend on the following factors:

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

Our Board has absolute discretion to recommend any dividend for any year. There is no assurance that dividends of any amount will be declared or distributed in any year.

Distributable Reserves

As of June 30, 2009, our reserves available for distribution to our equity holders amounted to approximately RMB3,278.9 million.

PROPERTY INTERESTS AND PROPERTY VALUATION

Our property interests, including the interests in properties that are attributable to us, as valued by Savills Valuation and Professional Services Limited, an independent property valuer, as of September 30, 2009 was RMB21,402.6 million. There was a net revaluation surplus, representing the excess market value of the properties over their book value as of June 30, 2009 (after adjusting for units sold during the period from January 1 to September 30, 2009).

For further details of our property interests and the text of the letter and valuation certificates of these property interests prepared by Savills Valuation and Professional Services Limited, see the Property Valuation Report contained in Appendix IV to this document.

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

	(RMB in thousands)
Net book value as of June 30, 2009	
Property and equipment	56,550
Land use right	4,642,641
Properties under development	2,707,982
Completed properties held for sale	988,730
Investment properties	1,570,150
	9,966,053
Movement for the period from July 1, 2009 to September 30, 2009(1)	145,304
Net book value as of September 30, 2009	10,111,357
Valuation surplus	11,291,243
Valuation as of September 30, 2009	21,402,600

Note:

(1) Movement for the period from July 1, 2009 to September 30, 2009 mainly represented the costs incurred for construction of properties under development, offset by sales of properties, depreciation and amortization.

NO MATERIAL CHANGE

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