You should read the following discussion of our results of operations and financial condition in conjunction with our consolidated financial information as of and for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, including the notes thereto, included in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions. The following discussion contains forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed in such forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and "Business" and elsewhere in this prospectus.

For the purpose of this section, unless the context otherwise requires, references to 2007, 2008 and 2009 refer to our financial year ended December 31 of such year.

OVERVIEW

We are an integrated residential and commercial property developer with a focus on large-scale, medium- to high-end property developments in selected cities in China. We currently focus on the Bohai Rim, South Jiangsu and Chengdu-Chongqing regions and operate in five strategically targeted cities which we believe have significant potential for economic growth, namely Tianjin, Beijing, Chongqing, Wuxi and Suzhou. Since we commenced operations in Tianjin in 2003, we have successfully established a strong market position in Tianjin and have been active in expanding our business to the other target cities.

We focus on the development of large-scale, integrated residential and commercial properties. We develop a variety of residential properties for sale, including high-rise apartments, mid-rise apartments, townhouses and detached villas. We also develop various commercial properties primarily for sale as well as for lease, including retail stores, offices and serviced apartments. Many of our residential projects are large in scale, featuring a combination of residential properties integrated with value-added ancillary facilities such as clubhouses, retail stores, parking spaces and schools. Our commercial properties are typically large-scale commercial complexes combining retail space, offices, parking facilities and, in some cases, serviced apartments. During the Track Record Period, we generated substantially all of our revenue from sales of residential and commercial properties and only a minor portion of our revenue was derived from the leasing of investment properties and the provision of property management services.

For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, our revenue was RMB3,011.5 million, RMB3,449.5 million, RMB4,795.2 million and RMB245.6 million, respectively, and our profit attributable to equity holders of the Company was RMB174.4 million, RMB495.6 million, RMB825.1 million and RMB44.6 million, respectively.

We recognize revenue from sales of property in our consolidated income statement only when the property has been completed and delivered to the buyer. See "– Critical Accounting Policies – Revenue recognition" for more details. Prior to the date of revenue recognition, we include proceeds received from properties sold, including pre-sales proceeds that we receive when we sell properties prior to their completion and delivery, in our consolidated balance sheets as "advanced proceeds from customers" under "current liabilities." Accordingly, our results of operations may vary significantly from period to period, and in particular are dependent on the timing of completion and delivery of our properties. As such, period to period comparisons of our operating results may not be as meaningful as they would be for other companies with a greater proportion of recurring revenue. In addition, our historical results may not be indicative of our future performance.

RECENT DEVELOPMENTS

Certain Recent Financings

Yixing Sunac Dongjiu Financing

On March 19, 2010, WFOE-V entered into certain entrusted loan agreements with Industrial and Commercial Bank of China, Wuxi Helie Branch ("ICBC") and Yixing Sunac Dongjiu, pursuant to which WFOE-V agreed to grant, through ICBC, to Yixing Sunac Dongjiu credit facilities with an aggregate principal amount of RMB560.0 million. These credit facilities were fully drawn down on March 19 and 22, 2010 but were not reflected on our consolidated balance sheet as of March 31, 2010 due to the elimination of inter-company loans upon consolidation.

On April 16, 2010, WFOE-V assigned all of its rights and obligations under these credit facilities to Rongde for a cash consideration of RMB560.0 million, which was the same amount as the amount of the entrusted loans provided by WFOE-V to Yixing Sunac Dongjiu. The entrusted loans from WFOE-V were funded by internal funds of our Group and were provided in March 2010 to primarily facilitate the meeting of Yixing Sunac Dongjiu's funding requirements while we were in the process of discussing the financing arrangements with third-party lenders. After reaching agreement with Rongde regarding its provision of financing to Yixing Sunac Dongjiu in April 2010, WFOE-V assigned the entrusted loans to Rongde, as a result of which Rongde became the lender of the entrusted loans of RMB560.0 million in place of WFOE-V.

We plan to use the entrusted loans provided by Rongde to fund part of the development costs of the Yixing project. The term of the entrusted loans was three years. The interest rate was 17.14% per annum, subject to changes in the PBOC benchmark lending interest rate. Interest payments are calculated and payable on quarterly basis while the principal amount will be due and payable in full on March 19, 2013. To secure Yixing Sunac Dongjiu's obligations under these entrusted loans, (i) the land use rights to certain land parcels held by each of Yixing Sunac Dongjiu, Sunac Zhidi, Wuxi Sunac City and Wuxi Sunac Real Estate were charged, (ii) 100% of the equity interest in each of Sunac Ao Cheng and Yixing Sunac Dongjiu were pledged, and (iii) a guarantee from Sunac Zhidi was made, all to or in favor of Rongde.

As part of the Yixing Sunac Dongjiu financing arrangements, Rongde also entered into an agreement on April 16, 2010 with Yixing Sunac Dongjiu to provide a cash funding of RMB40.0 million to Yixing Sunac Dongjiu. The funding was structured as a capital injection for a 10% equity interest in Yixing Sunac Dongjiu, which was issued to Rongde on June 23, 2010. For more information, see "History, Reorganization and Group Structure – History – Wuxi Sunac Real Estate, Wuxi Sunac City, Chunshen Lake and Yixing Sunac Dongjiu." The 10% equity interest in Yixing Sunac Dongjiu is held by Rongde principally to provide an additional form of security to Rongde for the amounts lent or otherwise provided by Rongde to us. Rongde is not entitled to any dividend right for such equity interest. Pursuant to an equity transfer agreement dated April 16, 2010 between Rongde and Wuxi Sunac Real Estate, Rongde agreed to transfer back its 10% equity interest in Yixing Sunac Dongjiu to Wuxi Sunac Real Estate for a consideration of RMB40.0 million on March 19, 2013, or on any earlier date as agreed by the parties or as provided under the equity transfer agreement. In connection with our obligations to repay RMB40 million to Rongde, we have charged, to and in favor of Rongde, the land use rights to certain land parcel held by Yixing Sunac Dongjiu and Chunshen Lake and certain properties under development in the Swan Lake and Dream of City projects.

Rongde established business relationship with our Group in early 2010. The financing arrangements provided by Rongde to Yixing Sunac Dongjiu in April 2010 were the first transaction between our Group and Rongde in which Rongde agreed to receive a fixed return in the form of interest payments. Because the three-year term of the loan, which provided our Group with a higher degree of stability in relation to financial resources, is longer than that could otherwise be offered by banks or other financial institutions in the market, Rongde demanded a higher interest rate than the weighted average effective interest rates of our Group during the Track Record Period. Our Group (including Yixing Sunac Dongjiu) expects to continue to seek financing (including loans from banks and other financial institutions) in such terms that are in the interests of our Company.

Wuxi Equity Purchase Loans

On June 10, 2010, Sunac Zhidi entered into a loan agreement with Agricultural Bank of China in relation to secured loans in an aggregate amount of RMB340.0 million (the "Wuxi Equity Purchase Loans"), which have been drawn down to partially fund our purchase of a 49% equity interest in Wuxi Sunac Real Estate from Tianjin Binhai and to repay certain shareholder's loan provided by Tianjin Binhai to Wuxi Sunac Real Estate. The Wuxi Equity Purchase Loans have a term of four years and bear interest at a rate equal to the applicable benchmark lending rate published by PBOC. To secure Sunac Zhidi's payment obligations, (i) our 100% equity interest in Wuxi Sunac Real Estate was pledged, (ii) guarantees from Sunac Ao Cheng and Chongqing OG were made, and (iii) a guarantee from Mr. Sun was made, all in favor of Agricultural Bank of China.

Mr. Sun's guarantee provided in favor of Agricultural Bank of China in connection with the Wuxi Equity Purchase Loans will not be released prior to the Listing. Nonetheless, we believe we can financially operate independently of Mr. Sun as a Controlling Shareholder of our Company. For more information, see "– Sunac Zhidi and Sunac Ao Cheng Financings" below.

Sunac Zhidi and Sunac Ao Cheng Financings

On July 1, 2010, each of Sunac Zhidi and Sunac Ao Cheng entered into a loan agreement with SDIC Trust Co., Ltd. (國投信託有限公司) ("SDIC Trust"), pursuant to which SDIC Trust agreed to provide a loan of RMB450.0 million to Sunac Zhidi to fund certain construction costs of the Mind-Land International project and a loan of RMB250.0 million to Sunac Ao Cheng to fund certain construction costs of the Magnetic Capital project (together, the "SDIC Trust Loans"). These loans have been fully drawn down, and each has a term of 24 months. Interest payments at a fixed interest rate of 10% are payable on December 20, 2010, June 20, 2011, December 20, 2011 and the maturity date for each of these loans.

China National Investment & Guaranty Co., Ltd. (中國投資擔保有限公司) ("CNIG") agreed to provide guarantees to SDIC Trust for each of the SDIC Trust Loans. To secure the guarantee made by CNIG in connection with the loan to Sunac Zhidi, (i) a guarantee from each of Sunac Mingxiang and Sunac China was made, (ii) a guarantee from each of our Directors Mr. Sun and Mr. Wang Mengde was made, (iii) our 70% equity interest in Sunac Mingxiang was pledged, and (iv) the land use rights to certain land in respect of the Xingyeli project were agreed to be charged, all to or in favor of CNIG. To secure the guarantee made by CNIG in connection with the loan to Sunac Ao Cheng, (i) a guarantee from each of Sunac Mingxiang and Sunac China was made, (ii) a guarantee from each of our Directors Mr. Sun and Mr. Wang Mengde was made, (iii) our 29% equity interest in Sunac Mingxiang was pledged, and (iv) the land use rights to certain land in respect of the Xingyeli project were agreed to be charged, all to or in favor of CNIG.

Mr. Sun's guarantee provided in favor of CNIG in connection with the SIDC Trust Loans will not be released prior to the Listing. Nonetheless, we believe we can financially operate independently of Mr. Sun as a Controlling Shareholder of our Company given that:

(i) We have been able to independently secure our financings in the past and were able to secure all of our financings without any guarantee or other financial support provided by Mr. Sun during the Track Record Period;

(ii) Our payment obligations under each of the Wuxi Equity Purchase Loans and CNIG's guarantees for the SDIC Trust guarantees are secured by a combination of security interests over our assets and equity interests and guarantees by our Company, certain of our subsidiaries and Mr. Sun, among others. Mr. Sun's guarantee represents only one of the instruments to secure our payment obligations. Moreover, the value of the security interests (including charges over land use rights and share pledges) based on independent third party valuation is significantly higher than the amount of each of these loans and should adequately secure our payment obligations in connection with these loans; and

(iii) We have established a proven financial management record in respect of debt payments. During the Track Record Period, none of our financings required our creditors to enforce any security interests or guarantees.

To secure the guarantees made by CNIG as described above, Sunac Zhidi also transferred to CNIG a 1% equity interest in Sunac Mingxiang on July 2, 2010, for which CNIG agreed to pay a cash consideration of RMB4 million. For more information, see "History, Reorganization and Group Structure – History – Sunac Mingxiang." The 1% equity interest in Sunac Mingxiang is held by CNIG principally to provide an additional form of security to CNIG for the amount secured by CNIG for us. CNIG is not entitled to any dividend in respect of such equity interest. CNIG agreed to transfer back such 1% equity interest in Sunac Mingxiang to Sunac Zhidi for the same amount of cash consideration of RMB4 million upon the completion of all relevant obligations of Sunac Zhidi, Sunac Ao Cheng and Sunac Mingxiang under the above arrangements.

In July 2010, we obtained an entrusted financing in a net amount of RMB250.0 million from Tianjin Trust Co., Ltd. (天津信託有限責任公司) ("Tianjin Trust"), by way of transferring to Tianjin Trust certain intra-group receivables. These receivables represented intra-group amounts due from Sunac Zhidi to Sunac Ao Cheng in a total amount of RMB400.0 million, and Sunac Ao Cheng's right to such receivables was transferred to Tianjin Trust for a consideration of RMB400.0 million. In connection with this form of financing arrangement, Tianjin Trust securitized (i) RMB250.0 million of such receivables as investment trust products for subscription by investors and (ii) RMB150.0 million of such receivables as investment trust products for subscription by Sunac Ao Cheng. The RMB250.0 million receivables in respect of the investment trust products for investors have a higher priority of payment than the RMB150.0 million receivables in respect of the investment trust products for Sunac Ao Cheng. Sunac Ao Cheng is required to redeem all receivables from Tianjin Trust on July 5, 2012 for RMB400.0 million and make additional quarterly payments to Tianjin Trust at a rate of return of 13% per year on the RMB250.0 million receivables in respect of the investment trust products for investors. As a result of this financing arrangement, Sunac Ao Cheng obtained a net amount of financing of RMB250.0 million from Tianjin Trust. This financing is secured by a share pledge in respect of a 30% equity interest in Chongqing OG. We plan to use the proceeds from such financing to fund part of the construction costs of the Magnetic Capital project.

Proposed Acquisitions of Chongqing Yuneng and APEV Property Management and Proposed Disposal of Chongqing Shangshan

On August 18, 2010, Sunac Zhidi entered into a memorandum of negotiation with Datang International Power Generation Co., Ltd. (大唐國際發電股份有限公司), the controlling shareholder of Chongqing Yuneng Real Estate, and Beijing Guoxin, an Independent Third Party, in connection with (1) the proposed purchases by Sunac Zhidi of a 40% equity interest in Chongqing Yuneng and a 40% equity interest in APEV Property Management from Chongqing Yuneng Real Estate for an aggregate cash consideration of RMB320.0 million (subject to certain conditions as described below); (2) the proposed disposal by Chongqing Yuneng of its 85% and 14% equity interests in Chongqing Shangshan to Chongqing Yuneng Real Estate and Beijing Guoxin, respectively, for an aggregate cash consideration of approximately RMB20.8 million; and (3) the proposed disposal by APEV Property Management of its 1% equity interest in Chongqing Shangshan to Beijing Guoxin for a cash consideration of RMB210,000. APEV Property Management is a property management company established in the PRC with a registered capital of RMB0.5 million. APEV Property Management is principally engaged in managing the completed residential and commercial properties in Asia Pacific Enterprise Valley and is currently owned as to 45% by Yingxin Xinheng, 40% by Chongqing Yuneng Real Estate and 15% by Beijing Guoxin. Pursuant to a confirmation letter dated August 28, 2010, Chongqing Yuneng Real Estate agreed to abide by the terms and conditions of this memorandum of negotiation that are applicable to it.

We have been advised by our PRC Legal Advisors that this memorandum of negotiation is binding on the parties thereto, provided, however, that (i) the proposed purchases of equity interests in Chongqing Yuneng and APEV Property Management from Chongqing Yuneng Real Estate, a state-owned enterprise, will each be subject to the success of Sunac Zhidi in bidding for such equity interests through the listing-for-sale process (as is required under the relevant PRC regulations governing the transfer of state-owned assets) and (ii) the consideration for such purchases may be adjusted by reference to an asset appraisal being performed and will be determined conclusively by the listing-for-sale process and may exceed the amount of RMB320.0 million. We are currently prepared to and may raise our bidding price to up to RMB330.0 million to compete against any other bids. However, we cannot assure you of the outcome of the listing-for-sale process, including whether we will be successful in purchasing the equity interests and how much we will be required to pay as the final consideration. Assuming a final consideration of RMB320.0 million, and taking into account the cash proceeds receivable by Chongqing Yuneng from its disposal of Chongqing Shangshan, the expected payment of a receivable of Chongqing Yuneng from Chongqing Shangshan upon the disposal of Chongqing Shangshan and the balance of cash and cash equivalents of Chongqing Shangshan as of August 31, 2010, we expect that the proposed transactions contemplated by this memorandum of negotiation, if completed, will not have any material negative impact on our cash flow position.

All the proposed purchases and disposals of equity interests contemplated by this memorandum of negotiation are inter-conditional upon one another, and the final equity transfer agreements relating to these proposed transactions must be executed simultaneously, if at all. Upon the completion of the proposed purchases and disposals, Sunac Zhidi would own a 85% equity interest in Chongqing Yuneng and a 40% equity interest in APEV Property Management and would cease to own, directly or indirectly, any equity interest in Chongqing Shangshan. As such, we may become the controlling shareholder of Chongqing Yuneng and therefore consolidate the financial results of Chongqing Yuneng into ours from the date of completion of the proposed transactions. Moreover, if Chongqing Yuneng becomes a subsidiary of our Company, any future transactions between Chongqing Yuneng and APEV Property Management would constitute continuing connected transactions of our Group by virtue of APEV Property Management being an associate of Mr. Sun, in which case we will be required to comply with all applicable requirements under Chapter 14A of the Listing Rules for continuing connected transactions. In addition, if we are successful in purchasing the 40% equity interest in APEV Property Management, we may consider to purchase the remaining equity interests in APEV Property Management from the other shareholders. Mr. Sun, through Yingxin Xinheng, currently owns a 45% equity interest in APEV Property Management and has given us a right of first refusal, subject to PRC law, relating to such equity interest. Should we decide to purchase such equity interest from Yingxin Xinheng, the terms of the purchase will be subject to arm's length negotiation between the parties and compliance with the applicable Listing Rules including the requirements under Chapter 14A of the Listing Rules for connected transactions.

Selected financial information of Chongqing Yuneng as of and for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010 is included in "Appendix I – Accountant's Report – II. Additional Financial Information of Chongqing Yuneng." We have also prepared, for illustrative purposes only, certain unaudited pro forma financial information of the Enlarged Group as of March 31, 2010 as included in "Appendix II – Unaudited Pro Forma Financial Information – C. Unaudited Pro Forma Statement of Assets and Liabilities of the Group."

For more information on the projects operated by Chongqing Yuneng and Chongqing Shangshan, see "Business – Property Development – Description of Our Property Development Projects – Chongqing – Asia Pacific Enterprise Valley" and "Business – Primary Land Development – Beibei, Chongqing."

Pre-IPO Share Option Scheme and Employees' Share Award Scheme

On September 9, 2010, we adopted the Pre-IPO Share Option Scheme and the Employees' Share Award Scheme whereby:

(i) under the Pre-IPO Share Option Scheme, we have granted to 121 grantees options to subscribe for up to 51,080,000 Shares, representing approximately 1.67% of the total number of Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised but that the Pre-IPO Share Options and the Trustee Option have been exercised in full). Subject to a vesting schedule and other terms and conditions, a grantee may exercise any vested portion of his or her options at a subscription price per Share equal to 80% of the Offer Price; and

(ii) under the Employees' Share Award Scheme, we have granted to the Scheme Trustee the Trustee Option to subscribe for up to 10,144,000 Shares ("Option Shares"), representing approximately 0.33% of the total number of Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised but that the Pre-IPO Share Options and the Trustee Option have been exercised in full) and the Scheme Trustee will, upon our request, award selected employees the rights to acquire Option Shares from the Scheme Trustee ("Awards") at a subscription price equal to 80% of the Offer Price. Subject to a vesting schedule and other terms and conditions, a selected employee may exercise any vested portion of his or her Awards to acquire a certain number of Option Shares, upon which the Scheme Trustee will exercise the Trustee Option (in part or in full) to require us to issue and allot such Option Shares.

Assuming the Pre-IPO Share Options and the Trustee Option are exercised in full immediately following the completion of the Capitalization Issue and the Global Offering and assuming the Over-allotment Option is not exercised, the Shares to be issued and allotted under the Pre-IPO Share Option Scheme and the Employees' Share Award Scheme will together represent approximately 2.00% of the number of Shares in issue based on our enlarged share capital as of the Listing Date. This will have a dilutive effect of approximately 2.00% on the shareholding of our Shareholders and on the earnings per Share of our Company.

A summary of the principal terms of the Pre-IPO Share Option Scheme and the Employees' Share Award Scheme is set forth in "Appendix VII – Statutory and General Information – D. Pre-IPO Share Option Scheme and Employees' Share Award Scheme."

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on April 27, 2007. We underwent the Reorganization in anticipation of this Global Offering, pursuant to which our Company became the holding company of the companies now comprising our Group. See "History, Reorganization and Group Structure – The Reorganization" for more details. Our Reorganization involved property development and property investment companies under common control, and our Company and consolidated subsidiaries resulting from the Reorganization are regarded as a continuing group. Accordingly, we have accounted for the Reorganization on the basis of merger accounting, under which our consolidated financial statements present our results of operations, cash flows and financial position as if our current group structure had been in existence since January 1, 2006, or since the respective dates of incorporation or establishment or acquisition, whichever is later. All intra-group transaction balances have been eliminated on consolidation. However, our consolidated financial and operational data presented in this prospectus do not purport to be indicative of what our actual financial and operational data would have been if we had been in existence in our current group structure since January 1, 2006. In accordance with HKFRS, we have prepared our consolidated financial statements under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by a number of factors, many of which are beyond our control, including those set forth below.

Economic growth, urbanization and demand for real estate properties in China, particularly in Tianjin, Beijing, Chongqing, Wuxi and Suzhou

Economic growth, urbanization and increasing purchasing power have been the main forces driving the increasing market demand for residential properties in China. At the current stage of China's economic development, while the property industry in China is regarded by the PRC Government as one of China's key industries, it is significantly dependent on China's overall economic growth, including the increase in the purchasing power of Chinese consumers and the resulting demand for residential properties in China. Because we primarily focus on developing medium- to high-end properties in our target cities of Tianjin, Beijing, Chongqing, Wuxi and Suzhou, we believe that private sector developments and urbanization in China, particularly in these and other future target cities, are especially important to our operations. These factors are expected to continue to have a significant impact on the number of potential property buyers and the pricing and profitability of residential properties, which directly affect our results of operations. If there is a downturn in the PRC economy or in any of the property markets in which we have operations, our financial condition and results of operations may be adversely affected. See "Risk Factors – Risks Relating to Our Business – We depend heavily on the performance of the property market in the PRC, particularly in Tianjin, Beijing, Chongqing, Wuxi and Suzhou."

Regulatory measures for the property sector in China

PRC Government policies and measures regarding property development and related industries have a direct impact on our business and results of operations. From time to time, the PRC Government adjusts its taxation policies and its macro-economic policies to promote or slow down the development of the property sector. Since 2004, the PRC Government has taken various steps to control land acquisition, planning, design, construction and pre-sales of properties, money supply, credit availability, mortgage, taxation and fixed asset investment with a view to preventing China's economy from overheating and to achieving balanced and sustainable economic growth. Nonetheless, between 2008 and 2009, the PRC Government implemented a series of economic and other measures designed to combat the adverse impact of the global financial crisis and stimulate the growth of the property market. Since the fourth quarter of 2009, in response to concerns about the overheating of the property market, the PRC Government has adopted, and may continue to adopt, a series of measures to, among other things, slow the escalation of property prices and curb speculation in the property market. In addition, we are also highly susceptible to regulations or measures that may be adopted by the PBOC restricting bank lending to enterprises, particularly to property developers. PRC regulatory measures affecting the property sector will continue to impact our business and results of operations.

Ability to maintain a high-quality Landbank of optimal size at a reasonable cost

Our continuing growth will depend significantly on our ability to maintain a high-quality Landbank of optimal size at a reasonable cost. Based on our current development plans, we believe we have sufficient land reserves for approximately the next four to five years. We also expect that competition among developers for land reserves that are suitable for property development will intensify, which will consequently drive up land acquisition costs. Certain regulatory requirements by the PRC Government, for example regulations that require government departments and agencies to grant state-owned land use rights for residential or commercial property development through competitive bidding processes, may also significantly affect the ability of property developers, including us, to acquire land and therefore affect our land acquisition costs. For more information, see "Risk Factors – Risks Relating to Our Business – We may not be able to obtain sites that are suitable for property developments at commercially suitable prices or at all" and "Risk Factors – Risks Relating to Our Business – We may not be able to obtain the Land Use Right Certificates for certain land parcels held for future development and may be subject to stricter payment terms for land use rights with respect to land we acquire in the future as a result of any additional restrictive regulations promulgated by the PRC."

Location and product mix

The location of our projects and the type of properties sold are important factors affecting our results of operations. In general, for the same property product, properties developed in Beijing and Tianjin generate higher revenue and gross profit margins than those in Chongqing, Wuxi and Suzhou, primarily because of their higher price per sq.m. in line with higher market prices in Beijing and Tianjin.

Among the types of residential properties we sell, detached villas and townhouses usually yield higher gross profit margins than high-rise and mid-rise apartments, as the former property types typically command higher sale prices per sq.m. In addition, commercial properties generally yield higher profit margins than residential complexes. As a result, the PRC Government's restrictions on the size and type of properties developed by property developers may affect our results of operations.

As such, our results of operations and sources of cash from operations may vary significantly from period to period, depending on, among other things, the location of the projects we have completed or sold and the type of products completed or sold in the period.

Timing and length of property development

Our results of operations tend to fluctuate from period to period. The number of property developments that a developer can undertake during any particular period is limited by the substantial amount of capital required to fund land acquisitions and to pay construction costs, as well as by the supply of land and other factors. It may take many months, or sometimes years, before any pre-sale in a property development. According to our accounting policy for revenue recognition, although the pre-sale of a property generates positive cash flow for us in the period in which it is made, no revenue is recognized in respect of the sale of a property until its development has been completed and the property has been delivered to the buyer. As construction timetables vary, our revenue in any specified period depends in part on the number of properties completed and delivered in that period.

In addition, as we focus on the development of large-scale, integrated residential and commercial properties, we typically develop properties in multiple phases over the course of several years. Generally, the selling prices of properties in such larger-scale developments tend to increase as the overall development approaches completion, when we are able to offer a more established residential community to our purchasers. Because the length of time it takes to complete our projects varies depending on a variety of factors, such as the GFA of the project and the type of property constructed, and because the time of year that our projects are completed also varies, our results of operations may fluctuate significantly from period to period.

As a consequence, our results of operations may fluctuate and our interim results may not proportionally reflect our annual results.

Pre-sales

Pre-sales constitute the most important source of our operating cash inflow during our project development process. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain conditions and requires us to use the pre-sale proceeds to develop the properties that have been pre-sold. See "Business – Project Development – Pre-sale" for additional details. The amount and timing of cash inflow from pre-sales are affected by a number of factors, including satisfaction of government regulations on the timing and other conditions relating to pre-sales, our construction and pre-sale schedules, and market demand for our properties available for pre-sale. The amount of cash inflow generated from pre-sales of properties affects our need for external financing and our financing expenses, which could in turn impact our ability to finance our continuing property developments as well as our financial condition and results of operations.

Access to capital and cost of financing

Borrowings from banks, related parties and third parties are an important source of funding for our property developments. As of December 31, 2007, 2008 and 2009 and March 31, 2010, our total borrowings, including current and non-current borrowings, were RMB2,517.1 million, RMB2,585.1 million, RMB2,671.4 million and RMB3,239.6 million, respectively. A substantial portion of our borrowings are linked to benchmark lending rates published by the PBOC. The

PBOC from time to time adjusts the benchmark lending rates. See "Risk Factors – Risks Relating to Our Business – We maintain a substantial level of indebtedness to finance our capital intensive business, and we may not have adequate cash flow to fund our operations or to service our financing obligations." Any change in the interest rate on our bank borrowings, including as a result of an interest rate adjustment by the PBOC, will affect our interest payments and finance costs and therefore affect our cash flow, financial condition and results of operations. In addition, our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC Government on bank lending for property development.

Price volatility of construction materials

A principal component of our cost of sales is construction costs, and historically, construction materials costs have been the primary driver of our construction costs. As such, our results of operations are affected by the price volatility of construction materials. A significant portion of the construction materials we use for our property development is procured by our construction contractors, which typically bear the risk of fluctuations in construction material prices during the term of the relevant contracts. However, we are exposed to the price volatility of construction materials to the extent that we enter into or renew our construction contracts from time to time and are not able to pass on any increased costs to our customers. Further, we typically pre-sell our properties prior to their completion and we may be unable to pass on the increased costs to our customers if construction costs increase subsequent to the pre-sale.

LAT

Our property developments are subject to LAT with respect to the appreciated value of the related land and improvements on such land. LAT applies to both domestic and foreign investors in real property in the PRC and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, calculated as the proceeds of sales of properties less certain deductible items. We make LAT provisions based on our estimates of the full amount of applicable LAT payable in accordance with the requirements set forth in relevant PRC tax laws and regulations. Under relevant laws and regulations, we are also required to prepay an amount of LAT equal to 1% to 4.5% of the proceeds from pre-sales of our properties in the cities in which we operate. As such, we only prepay a portion of our total LAT provisions each year as required by the local tax authorities. If the relevant tax authorities disagree with the basis on which we have calculated our LAT liabilities for provision purposes, or determine that such provisions are insufficient to cover all LAT obligations that tax authorities may ultimately impose on us, our LAT liabilities as calculated by the relevant tax authorities may become substantially higher than our provisions, which could significantly affect our cash flow, financial position and results of operations. For more information on LAT, see "Appendix V – Summary of Principal Legal and Regulatory Provisions – PRC Taxation – Land Appreciation Tax."

Change in fair value of our investment properties

Under HKFRS, we are required to reassess the fair value of our completed investment properties as of the date of the consolidated balance sheet, and gains or losses arising from changes in the fair value of our investment properties are included in our consolidated statement of comprehensive income in the period in which they arise. As of December 31, 2007, 2008 and 2009 and March 31, 2010, the fair value of our investment properties was RMB458.5 million, RMB433.0 million, RMB583.5 million and RMB583.5 million, respectively. For the years ended December 31, 2007, 2008 and 2009 and for the three months ended March 31, 2010, we experienced a fair value loss of RMB8.9 million, a fair value loss of RMB25.9 million, a fair value gain of RMB56.7 million and no change in fair value of investment properties, respectively. The fair value of each of our investment properties is likely to continue to fluctuate from time to time in the future, and volatility in our results of operations may increase as a result of fair value gains or losses. Any decrease in the fair value of our investment properties would adversely affect our profitability. In addition, fair value gains or losses do not give rise to any change to our cash position unless the relevant investment property is sold. Therefore, we may experience constraints on our liquidity even though our profitability increases.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, which have been prepared in accordance with HKFRS. Our reported financial condition and results of operations are sensitive to accounting methods and assumptions and estimates that underlie the preparation of the financial statements. We continually evaluate our estimates and assumptions and base them on historical experience and on various other factors that our Directors believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results typically differ from these estimates. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities mainly include those related to property development activities.

The selection of critical accounting policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our Directors believe the following critical accounting policies are among those that involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

Revenue from sales of properties is recognized when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and recoverability of related receivables is reasonably assured, which is when we determine the risks and rewards associated with the subject properties are transferred to the purchasers. Deposits and installments received on properties sold prior to the date of revenue recognition are included in our consolidated balance sheets as "advanced proceeds from customers" under "current liabilities."

Rental income generated from leasing of investment properties is recognized on a straight-line basis over the lease term.

Property management service income is recognized when the property management services have been performed, the total amount of revenue and costs arising from such services can be estimated reliably, and the realization of the associated economic benefits is probable.

Cost of sales

Cost of sales of our properties for a given period are recognized to the extent that revenue from such properties has been recognized in such period. Prior to the completion and delivery of our properties, such costs incurred are recorded in our consolidated balance sheets as "properties under development" under "current assets."

Cost of sales include construction costs, costs relating to the acquisition of land use rights, business tax, capitalized borrowing costs and other business costs, all of which are based upon the total saleable GFA of properties expected to be sold in each project which are allocated to each property based on the estimated relative saleable GFA of each property. We make such estimates based on information available at the time of completion of the relevant sales contracts, including the development plan and budget for the project. If there is any change to the estimated total development cost subsequent to the initial sales of a project, for example, due to fluctuations in construction costs or changes in development plans, we would typically finalize the cost with the contractor and allocate the increased or decreased cost to all properties in the project, including those that have been sold and delivered in prior periods, which would be expected to increase or decrease the unit costs of, and erode or improve the margins realizable on, the properties of the project during the period in which such change occurs.

Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. We acquired the rights to use certain land and the land grant fees and other fees that we paid for such rights are recorded as land use rights. Land use rights which are held for development for sales are inventories and measured at the lower of cost and net realizable value. The land use rights of an entire project are transferred to properties under development upon the commencement of construction of any part of the project.

Properties under development

Properties under development are stated at the lower of cost and net realizable value on our consolidated balance sheet. Net realizable value takes into account the price ultimately expected to be realized, less applicable variable selling expenses and anticipated cost to completion. Development cost of properties comprises land use rights costs, construction costs, and capitalized finance costs incurred during the development period. On completion, the properties are transferred to completed properties held for sale on our consolidated balance sheet.

Completed properties held for sale

Completed properties remaining unsold at the end of each balance sheet date are stated on our consolidated balance sheet 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 of the estimated selling prices based on prevailing marketing conditions.

Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. 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 incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing is derecognized when, and only when, the obligation specified in the control is discharged or cancelled or expires.

Deferred income tax

Deferred income tax is provided on our consolidated balance sheet in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is 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 management believes it is probable that future taxable profit will be available against which the temporary differences can be utilized. Significant management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

DESCRIPTION OF CERTAIN INCOME STATEMENT ITEMS

Revenue

Revenue represents our income from sales of properties, rental income from the leasing of investment properties and property management service income. As income from sales of properties constitutes substantially all of our revenue, our results of operations for a given period are dependent upon the type and GFA of properties we have completed and delivered during that period, the market demand for those properties and the price we obtained from the pre-sale or sale of the properties. Conditions in the property markets in which we operate change from period to period and are affected significantly by the general economic, political and regulatory developments in the PRC, particularly in Tianjin, Beijing, Chongqing, Wuxi and Suzhou. For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, we recognized revenue from the sale of properties in the amount of RMB2,998.2 million, RMB3,433.4 million, RMB4,777.0 million and RMB239.4 million, respectively, in connection with the delivery of a total GFA of approximately 421,251 sq.m., 491,315 sq.m., 707,902 sq.m. and 20,789 sq.m., respectively.

The following table shows certain details of our revenue for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000) (unaudited)	(%)	(RMB'000)	(%)
Sales of properties	2,998,190	99.6	3,433,384	99.5	4,777,031	99.6	189,249	97.8	239,439	97.5
Rental income	13,262	0.4	16,115	0.5	18,182	0.4	4,336	2.2	4,952	2.0
Property management service income	–	–	–	–	–	–	–	–	1,181	0.5
	3,011,452	100.0	3,449,499	100.0	4,795,213	100.0	193,585	100.0	245,572	100.0
Total GFA delivered (sq.m.)	421,251		491,315		707,902		29,603		20,789	
Average selling price per sq.m. sold[1] (RMB)	7,117		6,988		6,748		6,393		11,518	

Note:

(1) Average selling price per sq.m. sold refers to the average realized sales price of properties (excluding our leasing operations and property management services) and is derived by dividing income from sales of properties by the total GFA delivered.

Consistent with industry practice in the PRC, after satisfying the conditions for pre-sales set forth in PRC laws and regulations, we often enter into pre-sale contracts with customers while the relevant properties are still under development. We do not recognize any revenue from the pre-sale of our properties until we have completed the construction of such properties and delivered them to the customers. Typically there is a time gap ranging from one to two years between the time we commence pre-sales of properties and the time we deliver such properties. Before the completion of pre-sold properties, deposits and installments received from our customers are recorded as "advanced proceeds from customers" under "current liabilities" on our consolidated balance sheet.

Cost of sales

Cost of sales comprises the costs we incur directly in relation to our property development activities as well as our leasing and property management operations. Cost of sales includes construction related costs, costs relating to the acquisition of land use rights, business tax, capitalized interest on relevant borrowings during the period of construction and other business costs as follows:

- *Construction costs*. These represent costs for the design and construction of a property project and consist primarily of fees paid to our contractors, including those responsible for civil engineering construction, landscaping, equipment installation and interior decoration, as well as infrastructure construction costs and design costs. Our construction related costs are affected by a number of factors such as the prices of construction materials, location and types of properties, choices of materials and investments in ancillary facilities.

- *Land use rights costs*. These represent costs relating to acquisition of the rights to occupy, use and develop land, including land grant fees, demolition and resettlement costs, and other land related taxes and government surcharges. Such costs are influenced by a number of factors, including the location of the property, market conditions, the project's plot ratios, the approved use of the land, our method of acquisition and changes in PRC regulations.

- *Business tax*. Our operating subsidiaries in the PRC are subject to business tax on their revenues. Sales of properties were subject to a 5% business tax during each of 2007, 2008 and 2009 and the three months ended March 31, 2010.

- *Capitalized interest*. We capitalize a portion of our cost of borrowing to the extent that such costs are directly attributable to the construction of a particular project. In general, we capitalize finance costs incurred from the commencement of the planning and design of a project until the physical completion of its construction. Costs that are not directly attributable to the construction of a particular project are recorded as finance costs in our consolidated income statement and therefore fluctuations in the amount and timing of capitalization of our borrowing costs from period to period will affect our finance costs.

- *Other costs.* We incur other business costs primarily in relation to our leasing and property management operations. This also includes a 5% business tax on the leasing of investment properties and the provision of property management services.

The following table shows certain information relating to our costs of sales for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000) (unaudited)	(%)	(RMB'000)	(%)
Development costs:										
Construction costs	1,419,162	64.2	1,493,245	63.0	2,128,620	61.9	76,670	52.1	74,320	59.5
Land use rights costs	484,114	21.9	551,772	23.3	878,190	25.6	53,676	36.5	27,886	22.3
Capitalized interest	140,143	6.3	134,045	5.7	166,413	4.8	5,656	3.8	7,403	5.9
	2,043,419	92.4	2,179,062	91.9	3,173,223	92.3	136,002	92.4	109,609	87.8
Other costs	2,328	0.1	4,468	0.2	3,680	0.1	776	0.5	1,959	1.6
	2,045,747	92.5	2,183,530	92.1	3,176,903	92.5	136,778	92.9	111,568	89.3
Business tax	165,810	7.5	188,210	7.9	259,287	7.5	10,450	7.1	13,302	10.7
Total	2,211,557	100.0	2,371,740	100.0	3,436,190	100.0	147,228	100.0	124,870	100.0
Total GFA delivered (sq.m.)	421,251		491,315		707,902		29,603		20,789	
Average cost per sq.m. sold (RMB)(1)	5,244		4,818		4,849		4,947		5,913	

Note:

(1) Average cost per sq.m. sold refers to the average cost of sales of properties (excluding our leasing and property management operations) and is derived by dividing the sum of construction related costs, land use rights costs, capitalized interest and business tax by the total GFA delivered.

The components of our cost of sales may change in any given period based on the type and location of properties completed and sold. We recognize the cost of sales of our properties for a given period to the extent that revenue from such properties has been recognized in that period, i.e., upon completion and delivery of the relevant properties.

Net gain or loss from fair value of investment properties

Investment properties, which are properties held for long-term rental yields, are stated at their fair value on each balance sheet date. During the Track Record Period, our investment properties comprised only completed investment properties and gains or losses from fair value of investment properties arose from (i) fair value adjustments in respect of our existing completed investment properties in accordance with prevailing market conditions and (ii) the recategorization of properties from certain completed properties held for sale to completed investment properties upon a decision to change the designated use of such properties. Gains or losses arising from changes in the fair value of investment properties are included in our consolidated income statement in the period in which they arise. However, any such gains or losses reflect unrealized capital gains or losses in the value of our investment properties and do not constitute profit generated from operations or generate any cash inflow to us. The fair values of our investment properties are based on valuations of such properties conducted by DTZ, an independent property valuer, using property valuation techniques involving certain assumptions of market conditions. Favorable or unfavorable changes to these assumptions would be expected to result in changes in the fair value of our investment properties and corresponding adjustments to the amount of gain or loss reported in our income statement.

For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, we had a net loss from fair value of investment properties of RMB8.9 million, a net loss from fair value of investment properties of RMB25.9 million, a net gain from fair value of investment properties of RMB56.7 million and no change in fair value of investment properties, respectively. The fluctuations in gain or loss from fair value of investment properties during the Track Record Period were primarily attributable to the revaluation of our investment properties at Magnetic Capital, primarily as a result of changes in investment income receivable on such properties, changes in prevailing market conditions and the recategorization of certain completed properties held for sale to investment properties as we decided to change the designated use of such properties.

The following table shows the changes in the fair value of our investment properties (before deferred tax effect), broken down by property type and project, for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2007		2008		2009		2009		2010	
	Saleable/ rentable GFA (sq.m.)	Change in fair value (RMB'000)	Saleable/ rentable GFA (sq.m.)	Change in fair value (RMB'000)	Saleable/ rentable GFA (sq.m.)	Change in fair value (RMB'000)	Saleable/ rentable GFA (sq.m.)	Change in fair value (RMB'000) (unaudited)	Saleable/ rentable GFA (sq.m.)	Change in fair value (RMB'000)
Existing completed investment properties										
Magnetic Capital	49,718	(18,000)	51,911	(25,735)	35,416	12,600	35,416	7,400	91.035	–
Joy Downtown	13,751	3,000	13,751	(117)	13,751	1,600	13,751	600	13,751	–
	63,469	(15,000)	65,662	(25,852)	49,167	14,200	49,167	8,000	104,786	–
Newly added completed investment properties										
Magnetic Capital	2,193	6,127	–	–	55,619	42,455	55,619	23,655	–	–
Joy Downtown	–	–	–	–	–	–	–	–	–	–
	2,193	6,127	–	–	55,619	42,455	55,619	23,655	–	–
Total	65,662	(8,873)	65,662	(25,852)	104,786	56,655	104,786	31,655	104,786	–

Selling and marketing costs

Selling and marketing costs comprise primarily advertisement and promotion costs relating to the sale of properties, sales and marketing staff costs, and office and travel and other expenses relating to sales and marketing.

Administrative expenses

Administrative expenses comprise primarily administrative staff costs, general office and travel expenses, consulting expenses, other tax expenses and various other expenses.

Other income

Other income consists primarily of interest income from bank deposits, investment income primarily from interest receivable on shareholder's loan extended to our associated project companies, grants from local governments designed to encourage development in certain locations, and other various types of income. We may not receive government grants every year, and it is within the discretion of the local governments to determine whether and how much to grant to an enterprise. The criteria and basis of making a grant by each local government are different, but the decision usually depends on the local government's evaluation of the local economic conditions and the contribution made by the relevant enterprise. Other enterprises may also be entitled to government grants.

Other expenses

Other expenses consist of compensation we paid purchasers for our late delivery of properties, penalties imposed by government authorities, and miscellaneous other expenses.

Net finance costs

Net finance costs include primarily interest expenses on bank borrowings, borrowings from non-bank financial institutions, borrowings from third parties, and other finance costs (other than capitalized interest, which is included in the cost of properties under development). Other finance costs include fees and charges on notes payable issued by banks, changes in the fair value of the future payables arising from obligations incurred in relation to the transfer to us of a 50% equity interest in Shougang Sunac, and certain other costs associated with certain financing activities. See also "– Share of loss of associates" below.

Share of profit or loss of jointly controlled entities

Share of profit or loss of jointly controlled entities represents our profit or loss after taxation that is attributable to our interests in Chongqing Yuneng, which engages in the development of the Asia Pacific Enterprise Valley project, and Chongqing Shangshan, which engages in primary land development. We acquired a 45% equity interest in Chongqing Yuneng in 2007, which owns an equity interest of 99% in Chongqing Shangshan.

Share of loss or profit of associates

Share of loss or profit of associates represents our share of loss attributable to our investment in Shougang Sunac and Shouchi Yuda. In August 2007, we acquired a 50% equity interest in Shougang Sunac, which, through its current 100% equity ownership of Shouchi Yuda, is engaged in the East Fairyland project and is also engaged in the Xishan Yihaoyuan project.

As we hold a 50% equity interest in Shougang Sunac, which wholly and indirectly owns the East Fairyland project, we record a share of 50% of any post-acquisition profit or loss generated from the East Fairyland project. We have agreed, however, that out of our share of the dividends distributable from the East Fairyland project, 50% will be paid to the transferor as consideration for our acquisition of the 50% equity interest in Shougang Sunac. The present value of future payables is included in long-term payable on our consolidated balance sheet.

Pursuant to a profit sharing arrangement that Sunac Zhidi entered into in 2008 with Beijing Shougang, the other shareholder of Shougang Sunac, we agreed to be entitled to 35% of the net profit derivable from the Xishan Yihaoyuan project and to fund less than 50% of the additional funding required for the Xishan Yihaoyuan project.

For the years ended December 31, 2007 and 2008 and 2009 and the three months ended March 31, 2010, we recorded a loss of RMB11.6 million, a loss of RMB14.1 million, a profit of RMB164.9 million and a profit of RMB32.5 million, respectively, representing our share of loss or profit from these projects.

Income tax expenses

Income tax expenses represent current and deferred PRC corporate income tax and LAT payments made and provisions payable by our PRC subsidiaries. Our PRC corporate income tax has been calculated at the applicable tax rate on our assessable profits during the Track Record Period. For the year ended December 31, 2007, the corporate income tax rate generally applicable to our PRC subsidiaries was 33%. Under the Corporate Income Tax Law effective January 1, 2008, a uniform tax rate of 25% applies to all enterprises operating in the PRC, including foreign-owned enterprises which have set up production and operation facilities in the country. As a result of this new uniform income tax rate, we wrote off deferred tax assets of RMB10.5 million in 2007.

Non-controlling interests

Non-controlling interests represent third-party interests in our non-wholly owned subsidiaries, which included primarily Sunac Ao Cheng, Wuxi Sunac Real Estate and Wuxi Sunac City prior to our purchases of the minority interests in these subsidiaries during the Track Record Period. As of December 31, 2007, 2008 and 2009 and March 31, 2010, non-controlling interests in Sunac Ao Cheng represented third-party interests of 12.7%, 10%, 0% and 0%, respectively, and the non-controlling interests in each of Wuxi Sunac Real Estate and Wuxi Sunac City represented a third-party interest of 49%, 49%, 49% and 0%, respectively.

CONSOLIDATED RESULTS OF OPERATIONS

The following table shows the line items of our consolidated income statements, expressed in absolute figures and as a percentage of revenue, for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB'000)	(Percentage of revenue)	(RMB'000)	(Percentage of revenue)	(RMB'000)	(Percentage of revenue)	(RMB'000) (unaudited)	(Percentage of revenue)	(RMB'000)	(Percentage of revenue)
Revenue	3,011,452	100.0	3,449,499	100.0	4,795,213	100.0	193,585	100.0	245,572	100.0
Cost of sales	(2,211,557)	(73.4)	(2,371,740)	(68.8)	(3,436,190)	(71.7)	(147,228)	(76.1)	(124,870)	(50.8)
Gross profit	799,895	26.6	1,077,759	31.2	1,359,023	28.3	46,357	23.9	120,702	49.2
(Loss)/gain from fair value of investment properties, net	(8,873)	(0.3)	(25,852)	(0.7)	56,655	1.2	31,655	16.4	–	–
Selling and marketing costs	(65,300)	(2.2)	(124,559)	(3.6)	(67,961)	(1.4)	(17,228)	(8.9)	(19,685)	(8.0)
Administrative expenses	(83,506)	(2.8)	(93,045)	(2.7)	(113,618)	(2.4)	(26,502)	(13.7)	(30,801)	(12.5)
Other income	27,895	0.9	62,968	1.8	40,615	0.8	12,805	6.6	9,368	3.8
Other expenses	(62,180)	(2.1)	(15,750)	(0.5)	(7,632)	(0.2)	(7,658)	(4.0)	(352)	(0.1)
Operating profit	607,931	20.2	881,521	25.6	1,267,082	26.4	39,429	20.4	79,232	32.3
Finance costs, net	(82,633)	(2.7)	(110,860)	(3.2)	(113,263)	(2.4)	(32,575)	(16.8)	(45,498)	(18.5)
Share of (loss)/profit of jointly controlled entities	(24,916)	(0.8)	4,509	0.1	23,119	0.5	(2,554)	(1.3)	20,523	8.4
Share of (loss)/profit of associates	(11,552)	(0.4)	(14,141)	(0.4)	164,943	3.4	(9,115)	(4.7)	32,505	13.2
Profit/(loss) before income tax	488,830	16.2	761,029	22.1	1,341,881	28.0	(4,815)	(2.5)	86,762	35.3
Income tax expenses	(275,787)	(9.2)	(284,106)	(8.2)	(470,837)	(9.8)	(13,322)	(6.9)	(43,348)	(17.7)
Profit/(loss) for the year/period	213,043	7.1	476,923	13.8	871,044	18.2	(18,137)	(9.4)	43,414	17.7
Attributable to:										
Equity holders of the Company	174,382	5.8	495,606	14.4	825,062	17.2	(5,411)	(2.8)	44,584	18.2
Non-controlling interests	38,661	1.3	(18,683)	(0.5)	45,982	1.0	(12,726)	(6.6)	(1,170)	(0.5)
	213,043	7.1	476,923	13.8	871,044	18.2	(18,137)	(9.4)	43,414	17.7

Three months ended March 31, 2010 compared to three months ended March 31, 2009

Revenue

Our revenue increased by RMB52.0 million, or 26.9%, from RMB193.6 million for the three months ended March 31, 2009 to RMB245.6 million for the three months ended March 31, 2010. This increase was mainly attributable to the significant increase in revenue generated from the Magnetic Capital project primarily as a result of an increase in sales of offices and retail properties in Phase 2 and the delivery of residential properties in Phase 6. Such increase in revenue was offset partially by a decrease in revenue recognized from the Dream of City and Chongqing Olympic Garden projects for the three months ended March 31, 2010 as compared to the same period in 2009, primarily because of the timing of completion and delivery of different phases of these projects. As a result of a decrease in GFA delivered for these two projects and a partially offsetting increase in GFA delivered for the Magnetic Capital and other projects, our total GFA delivered decreased by approximately 8,814 sq.m., or 29.8%, from approximately 29,603 sq.m. for the three months ended March 31, 2009 to approximately 20,789 sq.m. for the three months ended March 31, 2010. Between the two periods, we recorded a 80.2% increase in the average selling price per sq.m. sold from RMB6,393 per sq.m. to RMB11,518 per sq.m. Such increase was due primarily to an increase in revenue contribution from the Magnetic Capital project, which generally had higher unit sale prices than our other projects in Wuxi and Chongqing, and, in particular, an increase in revenue contribution from sales of offices and retail properties in that project, which sold at higher unit prices than residential properties, and a general increase in property prices in the market.

The following table shows certain revenue information relating to the properties we delivered for sale for the periods indicated:

	For the three months ended March 31,							
	2009				2010			
Project/property type/phase	Revenue (RMB'000) (unaudited)	Percentage of total (%)	GFA delivered (sq.m.)	Average selling price (RMB)	Revenue (RMB'000)	Percentage of total (%)	GFA delivered (sq.m.)	Average selling price (RMB)
Magnetic Capital								
Residential properties, Phase 1	1,587	0.8	199	7,987	10	0.0	1	8,035
Serviced apartments, Phase 1	916	0.5	76	12,000	1,559	0.7	111	14,090
Retail properties, Phase 1	–	–	–	–	118	0.0	6	19,123
Offices, Phase 1	–	–	–	–	77	0.0	7	11,700
Parking spaces, Phase 1	3,000	1.6	847	3,540	1,185	0.5	306	3,875
Residential properties, Phase 2	–	–	–	–	7	0.0	1	7,066
Serviced apartments, Phase 2	1,713	0.9	132	12,930	1,810	0.8	136	13,317
Retail properties, Phase 2	18,975	10.0	946	20,064	39,058	16.3	1,590	24,569
Offices, Phase 2	3,775	2.0	275	13,706	93,544	39.1	6,462	14,476
Parking spaces, Phase 2	200	0.1	39	5,180	128	0.1	39	3,315
Residential properties, Phase 3	20,065	10.6	2,197	9,132	(73)	0.0	(9)	8,146
Parking spaces, Phase 3	5,734	3.0	1,410	4,065	250	0.1	72	3,457
Residential properties, Phase 4	560	0.3	89	6,260	2,396	1.0	164	14,607
Parking spaces, Phase 4	–	–	–	–	997	0.4	259	3,851
Residential properties, Phase 5	–	–	–	–	22	0.0	4	5,780
Residential properties, Phase 6	–	–	–	–	14,307	6.0	935	15,300
Subtotal	56,526	29.9	6,212	9,100	155,396	64.9	10,083	15,412

Project/property type/phase	2009 Revenue (RMB'000) (unaudited)	2009 Percentage of total (%)	2009 GFA delivered (sq.m.)	2009 Average selling price (RMB)	2010 Revenue (RMB'000)	2010 Percentage of total (%)	2010 GFA delivered (sq.m.)	2010 Average selling price (RMB)
	For the three months ended March 31,							
Mind-Land International								
Residential properties, Phase 1	15,974	8.4	652	24,493	19,999	8.4	715	27,965
Parking spaces, Phase 1	–	–	–	–	3,483	1.5	1,070	3,257
Residential properties, Phase 2	–	–	–	–	4,556	1.9	687	6,634
Parking spaces, Phase 2	–	–	–	–	1,690	0.7	508	3,328
Residential properties, Phase 3	–	–	–	–	32	0.0	5	7,039
Parking spaces, Phase 3	(120)	(0.1)	(34)	3,556	730	0.3	203	3,605
Residential properties, Phase 4	24,832	13.1	2,758	9,005	11,292	4.7	864	13,066
Parking spaces, Phase 4	(150)	(0.1)	(31)	4,862	1,618	0.7	401	4,036
Retail properties	–	–	–	–	2,262	0.9	141	16,000
Subtotal	40,536	21.4	3,345	12,118	45,663	19.1	4,593	9,942
Chongqing Olympic Garden								
Residential properties, Phase 1	2,085	1.1	625	3,338	1,041	0.4	289	3,609
Residential properties, Phase 2	15,408	8.1	2,952	5,219	759	0.3	125	6,079
Retail properties, Phase 2	–	–	–	–	–	–	–	–
Parking spaces, Phase 2	50	0.0	34	1,468	206	0.1	102	2,016
Residential properties, Phase 3	5,725	3.0	1,402	4,085	1,493	0.6	370	4,034
Retail properties, Phase 3	–	–	–	–	–	–	–	–
Parking spaces, Phase 3	210	0.1	104	2,023	275	0.1	73	3,790
Residential properties, Phase 4	6,753	3.6	1,766	3,824	1,110	0.5	334	3,320
Retail properties, Phase 2	9,878	5.2	928	10,639	465	0.2	38	12,143
Parking spaces, Phase 4	–	–	–	–	1,556	0.6	590	2,639
Residential properties, Phase 5	–	–	–	–	3,453	1.4	870	3,967
Retail properties, Phase 5	–	–	–	–	2,403	1.0	200	12,014
Residential properties, Phase 6	–	–	–	–	(227)	(0.1)	(27)	8,522
Subtotal	40,108	21.2	7,810	5,135	12,535	5.2	2,964	4,229
Swan Lake								
Residential properties, Phase 1	–	–	–	–	692	0.3	148	4,666
Parking spaces, Phase 1	–	–	–	–	–	–	–	–
Residential properties, Phase 2	5,736	3.0	1,091	5,259	8	0.0	3	2,616
Parking spaces, Phase 2	–	–	–	–	(190)	(0.1)	(112)	1,704
Residential properties, Phase 3	2,795	1.5	216	12,967	(2)	0.0	0	5,868
Residential properties, Phase 4	–	–	–	–	1	0.0	0	5,772
Retail properties, Phase 4	–	–	–	–	1,980	0.8	197	10,066
Residential properties, Phase 5	–	–	–	–	2,099	0.9	248	8,453
Retail properties, Phase 5	–	–	–	–	10,843	4.5	790	13,734
Parking spaces, Phase 5	–	–	–	–	–	–	–	–
Townhouses 5	–	–	–	–	4,363	1.8	231	18,915
Subtotal	8,531	4.5	1,306	6,531	19,796	8.3	1,505	13,153
Dream of City								
Residential properties, Phase 1	36,984	19.5	9,118	4,056	(4)	0.0	(1)	4,096
Residential properties, Phase 2	6,565	3.5	1,811	3,625	2,643	1.1	617	4,281
Residential properties, Phase 3	–	–	–	–	984	0.4	154	6,406
Residential properties, Phase 4	–	–	–	–	1,389	0.6	333	4,165
Parking spaces, Phase 2	–	–	–	–	1,039	0.4	540	1,924
Subtotal	43,548	23.0	10,929	3,985	6,050	2.5	1,643	3,681
Total	**189,249**	**100.0**	**29,603**	**6,393**	**239,439**	**100.0**	**20,789**	**11,518**

Cost of sales

Our cost of sales decreased by RMB22.4 million, or 15.2%, from RMB147.2 million for the three months ended March 31, 2009 to RMB124.9 million for the three months ended March 31, 2010. This decrease was due primarily to the decrease in total GFA delivered, which was offset partially by a 19.5% increase in average cost per sq.m. sold from RMB4,947 per sq.m. for the three months ended March 31, 2009 to RMB5,913 per sq.m. for the three months ended March 31, 2010. The increase in average cost per sq.m. sold resulted primarily from an increase in the proportion of sales generated from the Magnetic Capital project, which generally had higher average development costs than our other projects in Wuxi and Chongqing. Our cost of sales as a percentage of total revenue decreased from 76.1% for the three months ended March 31, 2009 to 50.8% for the three months ended March 31, 2010.

The following table shows the development costs (representing the total of construction costs, land use rights costs and capitalized interest) and the percentage of total development costs of properties delivered in each of our projects for the periods indicated:

	For the three months ended March 31,			
	2009		2010	
Project	**Development costs (RMB'000) (unaudited)**	**Percentage of total (%)**	**Development costs (RMB'000)**	**Percentage of total (%)**
Magnetic Capital	32,891	24.2	63,536	58.0
Mind-Land International. . .	19,930	14.7	23,596	21.5
Chongqing Olympic Garden	18,989	14.0	7,865	7.2
Swan Lake	8,931	6.6	9,158	8.4
Dream of City	55,262	40.6	5,455	5.0
Total	136,002	100.0	109,609	100.0

Gross profit

As a result of the foregoing, our gross profit increased by RMB74.3 million, or 160.4%, from RMB46.4 million for the three months ended March 31, 2009 to RMB120.7 million for the three months ended March 31, 2010. Between these periods, our gross profit margin increased from 23.9% to 49.2%. This increase in our gross profit margin was due primarily to an increase in the proportion of sales generated from the Magnetic Capital project, and, in particular, its offices and retail properties, which generally had higher gross profit margins than high-rise and mid-rise apartments, as well as a general increase in property prices.

Net gain from fair value of investment properties

We did not have any gain or loss from fair value of investment properties for the three months ended March 31, 2010, compared to a net gain of RMB31.7 million for the three months ended March 31, 2009. For the three months ended March 31, 2010, we recorded a relatively small increase and a relatively small decrease in the fair value of some of our investment properties, which completely offset each other. The gain from fair value of investment properties for the three months ended March 31, 2009 was primarily attributable to an increase in the fair value of our investment properties at Magnetic Capital, resulting primarily from (i) the gain from valuation of certain properties that were re-classified as investment properties in early 2009 and (ii) the growth of commercial and business activities in the surrounding area.

Selling and marketing costs

Our selling and marketing costs increased by RMB2.5 million, or 14.3%, from RMB17.2 million for the three months ended March 31, 2009 to RMB 19.7 million for the three months ended March 31, 2010. The increase was due mainly to our increased spending on advertisements and promotions to strengthen our brand in our target cities. The increase in advertisement and promotion costs was offset partially by a decrease in sales and marketing staff costs, which was due primarily to the incurrence of substantial compensation expenses for the three months ended March 31, 2009 as a result of the termination of staff as a cost-control initiative in early 2009.

Administrative expenses

Our administrative expenses increased by RMB4.3 million, or 16.2%, from RMB26.5 million for the three months ended March 31, 2009 to RMB30.8 million for the three months ended March 31, 2010. The increase was primarily attributable to a RMB7.0 million impairment provision for parking spaces and an increase in consulting expenses, including various fees and charges incurred in relation to the valuation and transfer of minority interests in Sunac Ao Cheng and Wuxi Sunac Real Estate and certain legal fees. Such increase was partially offset by a decrease in administrative and general staff costs, which was due primarily to the relatively smaller number of administrative and general employees for the three months ended March 31, 2010 as compared to the same period in 2009 as well as the incurrence of substantial compensation expenses for the three months ended March 31, 2009 as a result of the termination of staff as a cost-control initiative in early 2009.

Other income

Our other income decreased by RMB3.4 million, or 26.8%, from RMB12.8 million for the three months ended March 31, 2009 to RMB9.4 million for the three months ended March 31, 2010. The decrease was due primarily to a decrease in our income from government grants from RMB4.1 million for the three months ended March 31, 2009 to nil for the three months ended March 31, 2010. Such decrease in other income was offset partially by an increase in interest income accrued on a higher average balance of bank deposits for the three months ended March 31, 2010 compared to the same period in 2009.

Other expenses

Our other expenses decreased by RMB7.3 million, or 95.4%, from RMB7.7 million for the three months ended March 31, 2009 to RMB0.4 million for the three months ended March 31, 2010. The decrease in other expenses was due primarily to decreases in compensation for delay of delivery of properties and penalty charges. Our compensation and penalty charges for the three months ended March 31, 2009 were incurred due primarily to delays in the construction of our projects in Tianjin, which resulted primarily from the temporary suspension of construction in certain areas in Tianjin as mandated by the local government in the period leading up to and during the 2008 Olympics. For the three months ended March 31, 2010, our compensation for delay of delivery of properties decreased significantly to RMB37,950 and no penalty charges were incurred.

Operating profit

As a result of the foregoing, our operating profit increased by RMB39.8 million, or 100.9%, from RMB39.4 million for the three months ended March 31, 2009 to RMB79.2 million for the three months ended March 31, 2010. Our operating margin increased from 20.4% for the three months ended March 31, 2009 to 32.3% for the three months ended March 31, 2010.

Net finance costs

Our net finance costs increased by RMB12.9 million, or 39.7%, from RMB32.6 million for the three months ended March 31, 2009 to RMB45.5 million for the three months ended March 31, 2010. This increase was mainly attributable to a RMB24.1 million increase in other finance costs due primarily to an increase in notes payable obtained from banks from RMB362.2 million as of December 31, 2009 to RMB1,002.0 million as of March 31, 2010, which were part of a financing package of bank borrowings and notes payable obtained from the relevant banks. Such increase was offset partially by a RMB11.3 million increase in capitalized interests, which were mainly attributable to Wuxi Sunac City as it commenced construction of, and began to capitalize interests for, Phase 5 of Dream of City in March 2009.

Share of profit or loss of jointly controlled entities

Our share of profit of jointly controlled entities was RMB20.5 million for the three months ended March 31, 2010 compared to our share of loss of RMB2.6 million for the three months ended March 31, 2009. This change was primarily attributable to an increase in revenue from Chongqing Yuneng as Phase 2 of the Asia Pacific Enterprise Valley project was completed and the delivery of properties in Phase 2 commenced in February 2010.

Share of profit or loss of associates

Our share of profit of associates was RMB32.5 million for the three months ended March 31, 2010 compared to our share of loss of associates of RMB9.1 million for the three months ended March 31, 2009. This change was primarily attributable to an increase in revenue generated from the East Fairyland project as a result of the completion and delivery of certain properties in the project beginning in August 2009.

Profit or loss before income tax

As a result of the foregoing, our profit before income tax was RMB86.8 million for the three months ended March 31, 2010 compared to a loss before income tax of RMB4.8 million for the three months ended March 31, 2009.

Income tax expenses

Our income tax expenses increased substantially by RMB30.0 million from RMB13.3 million for the three months ended March 31, 2009 to RMB43.3 million for the three months ended March 31, 2010. The increase in income tax expenses was primarily attributable to a substantial increase in our LAT expense from RMB9.6 million for the three months ended March 31, 2009 to RMB39.3 million for the three months ended March 31, 2010 primarily as a result of the sales of offices and retail properties in Magnetic Capital, which had higher selling prices and higher gross profit margins and therefore resulted in increased LAT obligations. The increase in income tax expenses was also attributable to an increase in our corporate income tax charge primarily as we had a profit before income tax for the three months ended March 31, 2010 compared to a loss before income tax for the three months ended March 31, 2009.

Profit or loss for the period

As a result of the cumulative effect of the foregoing factors, our profit for the three months ended March 31, 2010, after income tax, was RMB43.4 million compared to our loss for the three months ended March 31, 2009, after income tax, of RMB18.1 million.

Non-controlling interests

Loss attributable to non-controlling interests decreased from RMB12.7 million for the three months ended March 31, 2009 to RMB1.2 million for the three months ended March 31, 2010. This decrease was due primarily to a decrease in losses incurred from our projects in Wuxi for the three months ended March 31, 2010 as we began to complete and deliver, and therefore recognize revenue for, properties sold in Phase 4 and Phase 5 of the Swan Lake project beginning in the fourth quarter of 2009. On February 9, 2010, we entered into a definitive equity transfer agreement with Tianjin Binhai in relation to the transfer of a 49% equity interest in Wuxi Sunac Real Estate from Tianjin Binhai to Sunac Zhidi and therefore ceased to have any profit or loss attributable to non-controlling interests.

2009 compared to 2008

Revenue

Our revenue increased by RMB1,345.7 million, or 39.0%, from RMB3,449.5 million in 2008 to RMB4,795.2 million in 2009. This increase was principally attributable to an increase of approximately 216,587 sq.m., or 44.1%, in total GFA delivered from approximately 491,315 sq.m. in 2008 to approximately 707,902 sq.m. in 2009. The increase in total GFA delivered was due primarily to the completion of a larger number of phases of various projects, including Phases 5 and 6 of Magnetic Capital, Phases 5 and 6 of Chongqing Olympic Garden, Phases 4 and 5 of Swan Lake and Phases 3 and 4 of Dream of City, in 2009 compared to 2008. Nonetheless, the increase in total GFA delivered was offset slightly by a 3.4% decrease in the average selling price per sq.m. sold from RMB6,988 per sq.m. in 2008 to RMB6,748 per sq.m. in 2009. While the average selling price for each project developed by our subsidiaries increased in 2009, the overall average selling price decreased slightly in 2009 primarily as a result of a decrease in revenue contribution from the Mind-Land International project in Tianjin in 2009 compared to 2008, which generally had higher unit prices than projects in other cities, and an increase in revenue contribution from our projects in Wuxi in 2009 compared to 2008, which generally had relatively low unit prices.

The following table shows certain revenue information relating to the properties we delivered for sale for the periods indicated:

Project/property type/phase	2008 Revenue (RMB'000)	2008 Percentage of total (%)	2008 GFA delivered (sq.m.)	2008 Average selling price (RMB)	2009 Revenue (RMB'000)	2009 Percentage of total (%)	2009 GFA delivered (sq.m.)	2009 Average selling price (RMB)
Magnetic Capital								
Residential properties, Phase 1. . . .	15,134	0.4	1,397	10,830	52,029	1.1	6,241	8,336
Retail properties, Phase 1	18,859	0.5	1,014	18,604	42,451	0.9	2,179	19,484
Serviced apartments, Phase 1	42,302	1.2	3,619	11,689	31,356	0.7	2,615	11,992
Offices, Phase 1	59,817	1.7	5,341	11,200	54,571	1.1	5,180	10,535
Parking spaces, Phase 1.	(171)	–	(70)	2,443	16,576	0.3	3,721	4,455
Residential properties, Phase 2. . . .	–	–	–	–	12,261	0.3	1,322	9,274
Retail properties, Phase 2	76,929	2.2	3,322	23,157	176,261	3.7	8,054	21,886
Offices, Phase 2	71,492	2.1	5,750	12,433	176,435	3.7	13,171	13,396
Serviced apartments, Phase 2	198,837	5.8	19,471	10,212	66,964	1.4	4,531	14,778
Parking spaces, Phase 2.	–	–	–	–	4,238	0.1	1,277	3,319
Residential properties, Phase 3. . . .	39,372	1.1	3,827	10,287	142,980	3.0	14,406	9,925
Parking spaces, Phase 3.	–	–	–	–	12,764	0.3	3,508	3,639
Residential properties, Phase 4. . . .	361,942	10.5	41,505	8,720	45,028	0.9	4,042	11,139
Parking spaces, Phase 4	–	–	–	–	11,523	0.2	2,815	4,093
Residential properties, Phase 5. . . .	–	–	–	–	285,549	6.0	29,622	9,640
Residential properties, Phase 6. . . .	–	–	–	–	463,040	9.7	42,622	10,864
Subtotal	884,514	25.8	85,177	10,384	1,594,025	33.4	145,306	10,970
Mind-Land International								
Residential properties, Phase 1 . . .	77,806	2.3	4,483	17,355	166,363	3.5	8,277	20,100
Parking spaces, Phase 1.	1,200	–	302	3,980	10,491	0.2	3,099	3,386
Residential properties, Phase 2. . . .	3,368	0.1	434	7,766	11,464	0.2	1,304	8,788
Parking spaces, Phase 2.	300	–	109	2,757	17,821	0.4	4,715	3,779
Residential properties, Phase 3. . . .	551,366	16.1	70,004	7,876	41,902	0.9	5,321	7,874
Parking spaces, Phase 3.	6,910	0.2	1,598	4,323	4,187	0.1	1,181	3,545
Residential properties, Phase 4. . . .	735,914	21.4	83,878	8,774	232,546	4.9	24,432	9,518
Parking spaces, Phase 4.	8,314	0.2	1,789	4,647	6,861	0.1	1,696	4,045
Retail properties	52,399	1.5	2,816	18,608	122,379	2.6	6,586	18,581
Subtotal	1,437,577	41.9	165,413	8,691	614,013	12.9	56,612	10,846
Joy Downtown								
Retail properties	1,642	–	209	7,858	12,489	0.3	888	14,068
Subtotal	1,642	–	209	7,858	12,489	0.3	888	14,068

Project/property type/phase	2008 Revenue (RMB'000)	2008 Percentage of total (%)	2008 GFA delivered (sq.m.)	2008 Average selling price (RMB)	2009 Revenue (RMB'000)	2009 Percentage of total (%)	2009 GFA delivered (sq.m.)	2009 Average selling price (RMB)
Chongqing Olympic Garden								
Residential properties, Phase 1	1,374	–	395	3,476	717	–	238	3,017
Residential properties, Phase 2	11,305	0.3	2,136	5,294	54,146	1.1	9,934	5,450
Retail properties, Phase 2	–	–	–	–	10,223	0.2	1,333	7,667
School, Phase 2	–	–	–	–	12,580	0.3	1,219	10,322
Parking spaces, Phase 2	–	–	–	–	414	–	409	1,014
Residential properties, Phase 3	10,565	0.3	2,356	4,485	23,781	0.5	5,053	4,706
Retail properties, Phase 3	–	–	–	–	(455)	–	(62)	7,309
Parking spaces, Phase 3	–	–	–	–	1,653	–	934	1,769
Residential properties, Phase 4	643,967	18.8	159,574	4,036	30,925	0.6	7,251	4,265
Parking spaces, Phase 4	–	–	–	–	1,890	–	758	2,493
Residential properties, Phase 5	–	–	–	–	872,991	18.3	217,966	4,005
Retail properties, Phase 5	–	–	–	–	27,294	0.6	2,730	9,997
Residential properties, Phase 6	–	–	–	–	255,386	5.3	29,035	8,796
Subtotal	667,212	19.4	164,461	4,057	1,291,546	27.0	276,799	4,666
Swan Lake								
Residential properties, Phase 1	4,157	0.1	831	5,003	14,598	0.3	2,678	5,451
Parking spaces, Phase 1	–	–	–	–	390	–	176	2,216
Residential properties, Phase 2	50,655	1.5	10,126	5,003	46,207	1.0	9,073	5,093
Parking spaces, Phase 2	–	–	–	–	4,710	0.1	2,677	1,760
Residential properties, Phase 3	326,450	9.5	49,680	6,571	8,928	0.2	1,002	8,906
Residential properties, Phase 4	–	–	–	–	219,681	4.6	37,018	5,934
Retail properties, Phase 4	–	–	–	–	39,324	0.8	3,730	10,542
Residential properties, Phase 5	–	–	–	–	585,902	12.3	88,406	6,627
Retail properties, Phase 5	–	–	–	–	20,636	0.4	1,755	11,759
Parking spaces, Phase 5	–	–	–	–	1,260	–	763	1,651
Subtotal	381,262	11.1	60,637	6,288	941,636	19.7	147,280	6,394
Dream of City								
Residential properties, Phase 1	44,584	1.3	11,020	4,046	42,379	0.9	10,299	4,115
Residential properties, Phase 2	16,593	0.5	4,398	3,773	9,777	0.2	2,568	3,807
Residential properties, Phase 3	–	–	–	–	137,951	2.9	34,970	3,945
Residential properties, Phase 4	–	–	–	–	133,215	2.8	33,181	4,015
Subtotal	61,177	1.8	15,418	3,968	323,322	6.8	81,018	3,991
Total	3,433,384	100.0	491,315	6,988	4,777,031	100.0	707,902	6,748

Note: For the year ended December 31.

Cost of sales

Our cost of sales increased by RMB1,064.5 million, or 44.9%, from RMB2,371.7 million in 2008 to RMB3,436.2 million in 2009. This increase was primarily attributable to an increase in construction costs and land use rights costs, which was generally in line with the increase in total GFA delivered. Our average cost per sq.m. sold increased slightly by 0.6%, from RMB4,818 per sq.m. in 2008 to RMB4,849 per sq.m. in 2009, primarily as a result of a larger contribution by Swan Lake, which had relatively high unit costs, and an increase in the average development costs of Chongqing Olympic Garden, which, together, was offset partially by a smaller contribution by Mind-Land International, which had relatively high unit costs. Our cost of sales as a percentage of total revenue increased from 68.8% in 2008 to 71.7% in 2009.

The following table shows the development costs (representing the total of construction costs, land use rights costs and capitalized interest) and the percentage of total development costs of properties delivered in each of our projects for the periods indicated:

	For the year ended December 31,			
	2008		2009	
Project	**Development costs (RMB'000)**	**Percentage of total (%)**	**Development costs (RMB'000)**	**Percentage of total (%)**
Magnetic Capital	514,766	23.6	853,818	26.9
Mind-Land International	797,047	36.6	313,949	9.9
Joy Downtown	14,809	0.7	6,828	0.2
Chongqing Olympic Garden	465,194	21.3	916,530	28.9
Swan Lake	325,563	14.9	778,460	24.5
Dream of City	61,683	2.8	303,638	9.6
Total	2,179,062	100.0	3,173,223	100.0

Gross profit

As a result of the foregoing, our gross profit increased by RMB281.3 million, or 26.1%, from RMB1,077.8 million in 2008 to RMB1,359.0 million in 2009. Between these years, our gross profit margin decreased from 31.2% to 28.3%. This decrease in gross profit margin reflected the combined result of a 3.4% decrease in average selling price and a 0.6% increase in average cost of sales for each sq.m. delivered to our purchasers in 2009, and was due primarily to a smaller contribution by Mind-Land International, which generally had a higher gross profit margin than projects in other cities, and a larger contribution by our projects in Wuxi, which generally had relatively low gross profit margins, in 2009.

Net gain from fair value of investment properties

Our net gain from fair value of investment properties was RMB56.7 million in 2009 compared to a net loss of RMB25.9 million in 2008. This was due mainly to an increase in the fair value of our investment properties at Magnetic Capital, resulting primarily from (i) the gain from valuation of certain properties that were re-classified as investment properties in early 2009 and (ii) a general growth of commercial and business activities in the surrounding area.

Selling and marketing costs

Our selling and marketing costs decreased by RMB56.6 million, or 45.4%, from RMB124.6 million in 2008 to RMB68.0 million in 2009, which was due mainly to a decrease in our advertisement and promotion costs from RMB95.9 million in 2008 to RMB38.4 million in 2009 as a result of generally stronger market demand in 2009.

Administrative expenses

Our administrative expenses increased by RMB20.6 million, or 22.1%, from RMB93.0 million in 2008 to RMB113.6 million in 2009. This increase was primarily attributable to a RMB14.0 million impairment provision for parking spaces and a RMB9.5 million provision for bad debts in 2009. We made the impairment provision for our completed parking spaces held for sale with regard to various projects as a result of reductions in the prices of parking spaces as part of sales promotions. We wrote down our accounts receivable by RMB9.5 million, which represents an amount which we prepaid to a local electric power bureau for construction of certain facilities but was unlikely to be collected.

Other income

Our other income decreased by RMB22.4 million, or 35.5%, from RMB63.0 million in 2008 to RMB40.6 million in 2009. This decrease was due primarily to a one-time recovery in 2008 of a prior write-down of RMB20.0 million in relation to our Mind-Land International project, which was coupled with a decrease of RMB13.1 million in government grants to our Magnetic Capital project in 2009 and partially offset by an increase of RMB12.8 million in investment income on entrusted loans provided by Sunac Zhidi to certain of our associated project companies.

Other expenses

Our other expenses decreased by RMB8.1 million, or 51.5%, from RMB15.8 million in 2008 to RMB7.6 million in 2009. This decrease was due primarily to a RMB5.3 million decrease in penalty charges, including late charges for tax payments, and a RMB1.7 million decrease in compensation for delay of delivery of properties incurred in 2009. In both years, we incurred compensation for delay of delivery of properties mainly in connection with our projects in Tianjin primarily as a result of the temporary suspension of construction in certain areas of Tianjin in 2008 in the period leading up to and during the 2008 Olympics.

Operating profit

As a result of the foregoing, our operating profit increased by RMB385.6 million, or 43.7%, from RMB881.5 million in 2008 to RMB1,267.1 million in 2009. Our operating margin increased from 25.6% in 2008 to 26.4% in 2009.

Net finance costs

Our net finance costs increased by RMB2.4 million, or 2.2%, from RMB110.9 million in 2008 to RMB113.3 million in 2009. This increase was mainly attributable to an increase in other finance costs, which was due primarily to an increase in the valuation of our long-term payable attributable to the transfer to us of the 50% equity interest in Shougang Sunac as a result of an increase in forecast profit for the East Fairyland project. Such increase was offset partially by a decrease in interest expenses on our borrowings, due primarily to a lower weighted average effective interest rate in 2009 as the benchmark lending rates published by the PBOC were lowered several times in the second half of 2008.

Share of profit of jointly controlled entities

Our share of profit of jointly controlled entities increased by RMB18.6 million, or 412.7%, from RMB4.5 million in 2008 to RMB23.1 million in 2009. This increase represented an increase in profit of Chongqing Yuneng in 2009, resulting primarily from the delivery of commercial properties in Phase 1 of the Asia Pacific Enterprise Valley project during the year with generally higher gross profit margins.

Share of profit or loss of associates

Our share of profit of associates was RMB164.9 million in 2009, compared to our share of loss of RMB14.1 million in 2008. This change was due primarily to the completion and delivery of the East Fairyland project beginning in August 2009.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by RMB580.9 million, or 76.3%, from RMB761.0 million in 2008 to RMB1,341.9 million in 2009.

Income tax expenses

Our income tax expenses increased by RMB186.7 million, or 65.7%, from RMB284.1 million in 2008 to RMB470.8 million in 2009. Our corporate income tax increased by RMB137.0 million, or 80.5%, from RMB170.2 million in 2008 to RMB307.2 million in 2009, largely as a result of the increase in our profit before income tax and a withholding tax of RMB50.2 million on the dividend distribution from our WFOEs to certain of our offshore subsidiaries. Our LAT increased by RMB49.7 million, or 43.6%, from RMB113.9 million in 2008 to RMB163.6 million in 2009, which was due primarily to the completion of a larger number of phases for various projects.

Profit for the year

As a result of the cumulative effect of the foregoing factors, our profit for the year, after income tax, increased by RMB394.1 million, or 82.6%, from RMB476.9 million in 2008 to RMB871.0 million in 2009.

Non-controlling interests

Profit attributable to non-controlling interests was RMB46.0 million in 2009 compared to loss attributable to non-controlling interests of RMB18.7 million in 2008. This change represented (i) an increase in net profit of Sunac Ao Cheng attributable to its minority shareholder for the time it held a 10% equity interest in Sunac Ao Cheng in 2009 before transferring the equity interest to us on December 16, 2009 and (ii) the improved results of the Swan Lake project attributable to the minority shareholder which held a 49% equity interest in Wuxi Sunac Real Estate in 2009.

2008 compared to 2007

Revenue

Our revenue increased by RMB438.0 million, or 14.5%, from RMB3,011.5 million in 2007 to RMB3,449.5 million in 2008. This increase was due primarily to an increase of approximately 70,064 sq.m., or 16.6%, in total GFA delivered, from approximately 421,251 sq.m. in 2007 to approximately 491,315 sq.m. in 2008, which was largely attributable to the completion and delivery of properties for the Swan Lake and Dream of City projects in Wuxi. We acquired a controlling interest in the companies engaging in such projects in December 2007, for which we began to recognize substantial revenue in 2008. Such increase in total GFA delivered was offset slightly by a 1.8% decrease in the average selling price per sq.m. of our properties from RMB7,117 per sq.m. in 2007 to RMB6,988 per sq.m. in 2008, due primarily to the proportional increase in revenue contribution of our properties in Wuxi and Chongqing in 2008, which generally had lower average prices than our properties in Tianjin.

The following table shows certain information relating to the properties we delivered for sale for the periods indicated:

	For the year ended December 31,							
	2007				2008			
Project/property type/phase	Revenue (RMB'000)	Percentage of total (%)	GFA delivered (sq.m.)	Average selling price (RMB)	Revenue (RMB'000)	Percentage of total (%)	GFA delivered (sq.m.)	Average selling price (RMB)
Magnetic Capital								
Residential properties, Phase 1	210,969	7.0	26,970	7,822	15,134	0.4	1,397	10,830
Serviced apartments, Phase 1	448,206	14.9	47,485	9,439	42,302	1.2	3,619	11,689
Retail properties, Phase 1	16,877	0.6	980	17,221	18,859	0.5	1,014	18,604
Offices, Phase 1	41,460	1.3	4,255	9,744	59,817	1.7	5,341	11,200
Parking spaces, Phase 1	6,115	0.2	1,705	3,586	(171)	–	(70)	2,443
Residential properties, Phase 2	337,216	11.2	41,249	8,175	–	–	–	–
Serviced apartments, Phase 2	–	–	–	–	198,837	5.8	19,471	10,212
Offices, Phase 2	–	–	–	–	71,492	2.1	5,750	12,433
Retail properties, Phase 2	–	–	–	–	76,929	2.2	3,322	23,157
Parking spaces, Phase 2	4,642	0.2	1,313	3,536	–	–	–	–
Residential properties, Phase 3	393,452	13.1	47,591	8,267	39,372	1.1	3,827	10,287
Parking spaces, Phase 3	5,999	0.2	1,664	3,606	–	–	–	–
Others	53,737	1.8	1,895	28,355	–	–	–	–
Residential properties, Phase 4	–	–	–	–	361,942	10.5	41,505	8,720
Subtotal	1,518,673	50.7	175,107	8,673	884,514	25.8	85,177	10,384
Mind-Land International								
Residential properties, Phase 1	79,084	2.6	11,349	6,968	77,806	2.3	4,483	17,355
Parking spaces, Phase 1	15,035	0.8	3,948	3,808	1,200	–	302	3,980
Residential properties, Phase 2	721,753	24.1	96,978	7,442	3,368	0.1	434	7,766
Parking spaces, Phase 2	15,698	0.5	3,796	4,135	300	–	109	2,757
Residential properties, Phase 3	–	–	–	–	551,366	16.1	70,004	7,876
Parking spaces, Phase 3	–	–	–	–	6,910	0.2	1,598	4,323
Residential properties, Phase 4	–	–	–	–	735,914	21.4	83,878	8,774
Parking spaces, Phase 4	–	–	–	–	8,314	0.2	1,789	4,647
Retail properties	126,106	4.2	7,279	17,325	52,399	1.5	2,816	18,608
Subtotal	957,675	31.9	123,350	7,764	1,437,577	41.9	165,413	8,691
Joy Downtown								
Retail properties	6,973	0.2	715	9,751	1,642	–	209	7,858
Subtotal	6,973	0.2	715	9,751	1,642	–	209	7,858

Project/property type/phase	2007 Revenue (RMB'000)	2007 Percentage of total (%)	2007 GFA delivered (sq.m.)	2007 Average selling price (RMB)	2008 Revenue (RMB'000)	2008 Percentage of total (%)	2008 GFA delivered (sq.m.)	2008 Average selling price (RMB)
Chongqing Olympic Garden								
Residential properties, Phase 1	87,026	2.9	22,400	3,885	1,374	–	395	3,476
Residential properties, Phase 2	136,948	4.6	34,463	3,974	11,305	0.3	2,136	5,294
Retail properties, Phase 2	21,665	0.7	3,536	6,127	–	–	–	–
Parking spaces, Phase 2	422	–	545	775	–	–	–	–
Residential properties, Phase 3	266,352	8.9	60,035	4,437	10,565	0.3	2,356	4,485
Retail properties, Phase 3	455	–	62	7,309	–	–	–	–
Parking spaces, Phase 3	2,001	0.1	1,038	1,927	–	–	–	–
Residential properties, Phase 4	–	–	–	–	643,967	18.8	159,574	4,036
Subtotal	514,869	17.2	122,079	4,218	667,212	19.4	164,461	4,057
Swan Lake								
Residential properties, Phase 1	–	–	–	–	4,157	0.1	831	5,003
Residential properties, Phase 2	–	–	–	–	50,655	1.5	10,126	5,003
Residential properties, Phase 3	–	–	–	–	326,450	9.5	49,680	6,571
Subtotal	–	–	–	–	381,262	11.1	60,637	6,288
Dream of City								
Residential properties, Phase 1	–	–	–	–	44,584	1.3	11,020	4,046
Residential properties, Phase 2	–	–	–	–	16,593	0.5	4,398	3,773
Subtotal	–	–	–	–	61,177	1.8	15,418	3,968
Total	2,998,190	100.0	421,251	7,117	3,433,384	100.0	491,315	6,988

Cost of sales

Our cost of sales increased by RMB160.1 million, or 7.2%, from RMB2,211.6 million in 2007 to RMB2,371.7 million in 2008. This increase was primarily attributable to increases in construction costs and land use rights costs due to the increase in total GFA delivered, offset partially by a lower average cost of sales in 2008. Our average cost of sales per sq.m. decreased by 8.1%, from RMB5,244 per sq.m. in 2007 to RMB4,818 per sq.m. in 2008, primarily because of the relatively lower unit cost of our projects in Wuxi that were included in our consolidated financial results in 2008 as compared to the unit costs of our projects in Tianjin. As a result, our cost of sales as a percentage of total revenue decreased from 73.4% in 2007 to 68.8% in 2008.

The following table shows the development costs (representing the total of construction costs, land use rights costs and capitalized interest) and the percentage of total development costs of properties delivered in each of our projects for the periods indicated:

Project	For the year ended December 31, 2007 Development costs (RMB'000)	2007 Percentage of total (%)	2008 Development costs (RMB'000)	2008 Percentage of total (%)
Magnetic Capital	1,098,686	53.8	514,766	23.6
Mind-Land International	587,372	28.7	797,047	36.6
Joy Downtown	5,266	0.3	14,809	0.7
Chongqing Olympic Garden	352,096	17.2	465,194	21.3
Swan Lake	–	–	325,563	14.9
Dream of City	–	–	61,683	2.8
Total	2,043,420	100.0	2,179,062	100.0

Gross profit

As a result of the foregoing, our gross profit increased by RMB277.9 million, or 34.7%, from RMB799.9 million in 2007 to RMB1,077.8 million in 2008. Between these years, our gross profit margin increased from 26.6% to 31.2%, primarily as a result of the decrease in the average cost of properties completed and delivered in 2008.

Net loss from fair value of investment properties

Our net loss from fair value of investment properties increased by RMB17.0 million, or 191.0%, from RMB8.9 million in 2007 to RMB25.9 million in 2008, primarily as a result of a decrease in the fair value of certain properties at Magnetic Capital leased for the operation of the Maison Mode Outlets store, in respect of which we terminated the lease agreement in 2009.

Selling and marketing costs

Our selling and administrative costs increased by RMB59.3 million, or 90.7%, from RMB65.3 million in 2007 to RMB124.6 million in 2008. This increase was due mainly to an increase in advertisement and promotion costs for our existing projects in Tianjin and Chongqing as well as for newly acquired projects in Wuxi. Due to the change in market conditions in 2008, we generally increased our advertisement and promotion expenditures in 2008 from those made in 2007.

Administrative expenses

Our administrative expenses increased by RMB9.5 million, or 11.4%, from RMB83.5 million in 2007 to RMB93.0 million in 2008. This increase was due primarily to additional administrative expenses relating to our newly acquired subsidiaries in Wuxi and Suzhou.

Other income

Our other income increased by RMB35.1 million, or 125.8%, from RMB27.9 million in 2007 to RMB63.0 million in 2008. This increase was primarily attributable to our recovery of a prepayment of RMB20.0 million that had been written down in a prior period in relation to our Mind-Land International project and an increase in investment income we received from shareholder's loans we made to certain associated project companies in 2008.

Other expenses

Our other expenses decreased by RMB46.4 million, or 74.6%, from RMB62.2 million in 2007 to RMB15.8 million in 2008. This decrease was due mainly to a decrease in compensation for delay of delivery of properties from RMB59.5 million in 2007 to RMB6.4 million in 2008. The compensation we paid in 2007 was incurred primarily in relation to delays in delivery of properties in our Mind-Land International and Magnetic Capital projects, due primarily to (i) interruptions to our construction schedules caused by former occupants of the sites who sought additional resettlement compensation from the local government, and (ii) delays in the government's completion of the permanent public utilities infrastructure for our projects.

Operating profit

As a result of the foregoing, our operating profit increased by RMB273.6 million, or 45.0%, from RMB607.9 million in 2007 to RMB881.5 million in 2008. Our operating margin increased from 20.2% in 2007 to 25.6% in 2008.

Net finance costs

Our net finance costs increased by RMB28.3 million, or 34.3%, from RMB82.6 million in 2007 to RMB110.9 million in 2008. This increase was attributable to a RMB23.0 million increase in total interest expense on our borrowings due to our higher level of borrowings in 2008 than in 2007, resulting primarily from the consolidation into our income statement of the borrowings of our subsidiaries in Wuxi acquired in 2008, as well as higher interest rates in 2008.

Share of profit or loss of jointly controlled entities

Our share of profit of jointly controlled entities was RMB4.5 million in 2008 compared to our share of loss of RMB24.9 million in 2007. These represented our share of profit or loss of Chongqing Yuneng. Such change in the financial results of Chongqing Yuneng was due primarily to its completion and delivery of properties in Phase 1 of the Asia Pacific Enterprise Valley project in December 2008 and the associated recognition of revenue from sales of these properties.

Share of loss of associates

Our share of loss of associates increased by RMB2.5 million, or 21.6%, from RMB11.6 million in 2007 to RMB14.1 million in 2008. Such increase was attributable to our share of loss of Shougang Sunac in connection with the East Fairyland project, the construction of which commenced in April 2007 and continued through 2008. In addition, since we acquired an equity interest of 50% in Shougang Sunac in August 2007, we had a share of its loss only for a period of less than five months in 2007, while our share of its loss was for a full year in 2008.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by RMB272.2 million, or 55.7%, from RMB488.8 million in 2007 to RMB761.0 million in 2008.

Income tax expenses

Our income tax expenses increased by RMB8.3 million, or 3.0%, from RMB275.8 million in 2007 to RMB284.1 million in 2008. This increase was due mainly to an increase in our LAT, which rose by RMB13.3 million, or 13.2%, from RMB100.6 million in 2007 to RMB113.9 million in 2008 primarily as a result of the additional LAT incurred for our then newly acquired projects in Wuxi. Meanwhile, our corporate income tax decreased by RMB5.0 million, or 2.9%, from RMB175.2 million to RMB170.2 million largely as a result of the lowering of the PRC corporate income tax rate from 33% to 25%.

Profit for the year

As a result of the cumulative effect of the foregoing factors, our profit for the year, after income tax, increased by RMB263.9 million, or 123.9%, from RMB213.0 million in 2007 to RMB476.9 million in 2008.

Non-controlling interests

Loss attributable to non-controlling interests was RMB18.7 million in 2008 as compared to profit attributable to non-controlling interests of RMB38.7 million in 2007. This change was due mainly to the losses of the then newly acquired projects in Wuxi in 2008, coupled with a decrease in profit attributable to non-controlling interests of Sunac Ao Cheng resulting from both a decrease in the profit of the subsidiary and a decrease in the non-controlling interests from 12.7% to 10% from 2007 to 2008.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We operate in a capital intensive industry and have historically financed, and expect to continue to finance, our working capital, capital expenditures and other capital requirements through proceeds from the pre-sale and sale of properties, borrowings from commercial banks and other parties, capital contributions from shareholders and new share issuances. Our short-term liquidity requirements relate to servicing our debt and funding our working capital requirements, and our sources of short-term liquidity include cash balances, proceeds from pre-sales and sales of properties and new loans. Our long-term liquidity requirements relate to funding the development of our new property projects and repaying our long-term debt, and our sources of long-term liquidity include loans, capital contributions from shareholders and share issuances.

Cash flow

The following table summarizes our cash flow for the periods indicated.

	For the year ended December 31,			For the three months ended March 31,	
	2007 (RMB'000)	2008 (RMB'000)	2009 (RMB'000)	2009 (RMB'000) (unaudited)	2010 (RMB'000)
Selected cash flow statement data					
Net cash generated from/(used in) operating activities	387,961	239,277	1,640,048	207,139	(315,921)
Net cash (used in)/generated from investing activities	(64,601)	(223,325)	(349,457)	(293,774)	1,479
Net cash generated from/(used in) financing activities	363,394	(94,914)	(505,836)	(256,216)	(645,237)
Net increase/(decrease) in cash and cash equivalents	686,754	(78,962)	784,755	(342,851)	(959,679)

Net cash generated from or used in operating activities

We had net cash used in operating activities of RMB315.9 million for the three months ended March 31, 2010 compared to net cash generated from operating activities of RMB207.1 million for the three months ended March 31, 2009. Our net cash used in operating activities for the three months ended March 31, 2010 was primarily attributable to (i) our profit before income tax of RMB86.8 million, which was adjusted mainly to account for our share of profit from associates and jointly controlled entities of RMB53.0 million, which did not generate any cash flow, and to account for finance costs of RMB45.5 million as cash outflow from financing activities, and (ii) changes in working capital representing a cash outflow of RMB325.9 million. Such changes in working capital were primarily attributable to an increase of RMB1,416.4 million in properties under development and completed properties held for sale largely as a result of our payment of certain land grant fees for the Xingyeli and Yixing projects, which was offset partially by an increase in trade and other payables of RMB1,125.0 million largely as a result of (i) an increase in notes payable obtained from banks as part of a financing package and (ii) proceeds from the pre-sale of our properties.

We had net cash generated from operating activities of RMB1,640.0 million in 2009. Our net cash generated from operating activities in 2009 was primarily attributable to (i) our profit before income tax of RMB1,341.9 million, which was adjusted mainly to account for our share of profit from associates and jointly controlled entities of RMB188.1 million, finance costs of RMB113.3 million, and gain from fair value of investment properties of RMB56.7 million as such gain did not generate any cash flow, and (ii) changes in working capital representing a cash inflow of RMB631.0 million due primarily to the large amount of GFA delivered in the second half of 2009. Such changes in working capital consisted mainly of a RMB1,202.1 million decrease in properties under development and completed properties held for sale, offset partially by a RMB752.2 million decrease in trade and other payables.

We had net cash generated from operating activities of RMB239.3 million in 2008. Our net cash generated from operating activities in 2008 was primarily attributable to (i) our profit before income tax of RMB761.0 million, which was adjusted mainly to account for finance costs of RMB110.9 million, and (ii) changes in working capital representing a cash outflow of RMB540.6 million. Such changes in working capital consisted mainly of a RMB524.3 million decrease in trade and other payables due primarily to the completion of a large number of properties in the second half of 2008 and fewer advanced proceeds from pre-sales in general in 2008.

We had net cash generated from operating activities of RMB388.0 million in 2007. Our net cash generated from operating activities in 2007 was primarily attributable to (i) our profit before income tax of RMB488.8 million, which was adjusted mainly to account for finance costs of RMB82.6 million, and (ii) changes in working capital representing a cash outflow of RMB107.2 million, which were due primarily to the large amount of GFA delivery in 2007. Such changes in working capital consisted mainly of a RMB945.8 million decrease in trade and other payables (including advanced proceeds from pre-sales), offset partially by a RMB482.6 million decrease in properties under development and completed properties held for sale and a RMB355.7 million decrease in other receivables.

Net cash used in or generated from investing activities

We had net cash generated from investing activities of RMB1.5 million for the three months ended March 31, 2010 compared to net cash used in investing activities of RMB293.8 million for the three months ended March 31, 2009. Our net cash generated from investing activities for the three months ended March 31, 2010 was due primarily to the net cash acquired in connection with the acquisition of Sunac Property Management, which had cash and cash equivalents of RMB6.1 million, offset partially by an investment of RMB3.0 million in mutual funds and the payment of RMB2.0 million for purchases of property, plant and equipment, including leasehold improvements.

Net cash used in investing activities was RMB349.5 million in 2009. This was due primarily to a RMB293.1 million investment in Shougang Sunac by way of an entrusted loan in connection with the Xishan Yihaoyuan project and a RMB58.5 million payment in connection with an increase in capital of Chongqing Yuneng.

Net cash used in investing activities was RMB223.3 million in 2008. This was due primarily to a RMB159.3 million payment for the 50% equity interest in Sunac Zhidi and a RMB40.5 million payment for the increase in capital of Chongqing Yuneng.

Net cash used in investing activities was RMB64.6 million in 2007. This was due primarily to the payments of RMB161.4 million in aggregate for the equity interests in Chongqing OG, Chongqing Yuneng, Sunac Ao Cheng and Sunac Zhidi, offset primarily by the net cash acquired from the acquisitions of Wuxi Sunac Real Estate, which had cash and cash equivalents of RMB59.8 million, and Wuxi Sunac City, which had cash and cash equivalents of RMB32.5 million.

Net cash generated from or used in financing activities

Net cash used in financing activities was RMB645.2 million for the three months ended March 31, 2010 compared to RMB256.2 million for the three months ended March 31, 2009. Our net cash used in financing activities for the three months ended March 31, 2010 was due primarily to our deposit of RMB649.3 million as security deposits with respect to certain bank borrowings and our payment of RMB500.0 million in connection with the acquisition of a 49% minority interest in Wuxi Sunac Real Estate, offset partially by a RMB568.3 million increase in net borrowings.

Net cash used in financing activities was RMB505.8 million in 2009. This was due primarily to our deposit of RMB281.3 million as security deposits with respect to certain bank borrowings and our payment of uncapitalized interest of RMB113.3 million, offset partially by a RMB86.3 million increase in net borrowings in 2009.

Net cash used in financing activities was RMB94.9 million in 2008. This was due primarily to our payment of uncapitalized interest of RMB110.9 million and our payment of RMB71.2 million as guarantee deposits for bank borrowings, offset partially by a RMB67.9 million increase in net borrowings in 2008.

Net cash generated from financing activities was RMB363.4 million in 2007. While we had a RMB353.2 million decrease in net borrowings in 2007, we received RMB1,399.9 million in cash contributions from Sunac International in relation to the Exchangeable Bonds financing. We also made a deemed distribution of RMB643.0 million to Yingxin Xinheng in 2007.

Working capital

As of July 31, 2010, we had net current assets of RMB4,797.5 million, consisting of current assets of RMB12,827.2 million and current liabilities of RMB8,029.7 million. As of March 31, 2010, we had net current assets of RMB2,249.2 million, consisting of current assets of RMB9,317.0 million and current liabilities of RMB7,067.8 million. The increase in net current assets from March 31, 2010 to July 31, 2010 resulted primarily from a RMB3,510.2 million increase in current assets (which was due primarily to increases in properties under development and cash and cash equivalents), partially offset by a RMB961.9 million increase in current liabilities (which was due primarily to an increase in advanced proceeds from customers). Our current assets as of July 31, 2010 comprised primarily properties under development of RMB8,768.6 million, completed properties held for sale of RMB1,070.2 million and cash and cash equivalents of RMB1,282.5 million. Our current liabilities as of July 31, 2010 comprised primarily advanced proceeds from customers of RMB4,510.7 million and trade and other payables of RMB2,441.7 million.

The following table shows our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of March 31,	As of July 31,
	2007	2008	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)
Current assets					
Properties under development	5,538,831	4,875,187	4,495,379	6,013,408	8,768,589
Completed properties held for sale	1,599,452	2,228,961	1,312,832	1,211,218	1,070,232
Amounts due from related parties	232,759	210,385	109,446	84,664	68,515
Other receivables	486,377	383,011	294,524	382,112	753,501
Held-to-maturity financial assets	–	1,000	–	–	–
Restricted cash	159,607	230,806	512,134	1,161,397	883,859
Cash and cash equivalents	718,039	639,077	1,423,832	464,153	1,282,484
	8,735,065	8,568,427	8,148,147	9,316,952	12,827,180
Current liabilities					
Trade and other payables	2,433,839	2,131,385	2,188,202	2,922,775	2,441,734
Advanced proceeds from customers	3,610,359	3,276,533	2,456,477	2,985,889	4,510,749
Amounts due to related parties	4,168	9,253	–	16,403	–
Borrowings	1,349,840	1,153,674	676,964	956,125	909,473
Financial guarantee	349	175	–	–	–
Current income tax liabilities	9,496	100,664	206,792	186,569	167,743
	7,408,051	6,671,684	5,528,435	7,067,761	8,029,699
Net current assets	1,327,014	1,896,743	2,619,712	2,249,191	4,797,480

Taking into account the estimated net proceeds from the Global Offering, our available bank loan facilities, our internal financial resources and cash flow from our operations, our Directors confirm that the Enlarged Group has sufficient working capital for our operations, including our contractual commitments and obligations, for at least the next 12 months from the date of this prospectus.

Restricted cash

During the Track Record Period, our restricted cash included (i) certain bank deposits maintained for purposes of obtaining notes payable, (ii) security deposits with respect to certain of our bank loans, and (iii) proceeds from pre-sales of properties, which may only be used for the construction of such properties under relevant PRC regulations. As of December 31, 2007, 2008 and 2009 and March 31, 2010, the balance of such restricted cash was RMB159.6 million, RMB230.8 million, RMB512.1 million and RMB1,161.4 million, respectively.

Indebtedness

The following table shows the outstanding borrowings of our Group and the unaudited pro forma outstanding borrowings of the Enlarged Group as of the dates indicated:

	As of December 31,			As of March 31,	As of July 31,	
	2007	2008	2009	2010	2010	
	The Group	The Group	The Group	The Group	The Group	The Enlarged Group
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
					(unaudited)	
Current						
Secured, borrowed from:						
– Banks	446,500	229,580	100,000	210,000	257,953	269,953
– Other financial institutions	121,000	50,000	–	–	100,000	100,000
Unsecured, borrowed from:						
– Banks	80,000	–	–	–	–	–
– Other financial institutions	–	46,000	46,000	46,000	46,000	46,000
– Third parties	140,000	139,994	119,862	119,861	–	–
Current portion of long-term borrowings	562,340	688,100	411,103	580,264	505,520	505,520
Current borrowings	1,349,840	1,153,674	676,964	956,125	909,473	921,473
Non-current						
Secured, borrowed from:						
– Banks	1,487,640	1,965,500	2,071,873	2,532,134	3,920,813	4,163,243
– Other financial institutions	242,000	154,000	333,620	331,620	1,469,620	1,469,620
Unsecured, borrowed from:						
– Banks	–	–	–	–	4,000	4,000
Less: current portion of long-term borrowings	(562,340)	(688,100)	(411,103)	(580,264)	(505,520)	(505,520)
Non-current borrowings	1,167,300	1,431,400	1,994,390	2,283,490	4,888,913	5,131,343
Total	2,517,140	2,585,074	2,671,354	3,239,615	5,798,386	6,052,816

The carrying amounts of our borrowings are denominated in Renminbi and approximate their fair value.

We had total borrowings of RMB5,798.4 million as of July 31, 2010 and RMB3,239.6 million as of March 31, 2010 compared to RMB2,671.4 million as of December 31, 2009. The increase in total borrowings from March 31, 2010 to July 31, 2010 was primarily attributable to our recent financings as described in "– Recent Developments – Certain Recent Financings" above. The increase in total borrowings from December 31, 2009 to March 31, 2010 was attributable to increases in bank borrowings which we incurred mainly to fund current and future development of our projects in Wuxi as well as the Chongqing Olympic Garden and Central of Glorious projects.

As of July 31, 2010, we had unutilized bank facilities of approximately RMB1,672.1 million, representing a credit facility obtained from Agricultural Bank of China. On October 13, 2009, Agricultural Bank of China committed to grant Sunac Zhidi and its subsidiaries a revolving credit facility of up to RMB2,828.0 million, which included a newly available credit amount of RMB2,200.0 million and an outstanding loan of RMB628.0 million as of the same date. Subject to the terms and conditions and approval procedures for each borrowing made thereunder, the facility is available for one year until October 12, 2010 for the drawdown of multiple borrowings to be used for property development. Payment obligations of any borrowings from Sunac Zhidi's subsidiaries must be guaranteed by Sunac Zhidi. The interest rate on borrowings under the facility will be determined in accordance with the prevailing interest rate policy and requirements in the PRC. As of July 31, 2010, we had total borrowings of RMB1,155.9 million outstanding under the facility.

Except as disclosed in this prospectus, we did not have any outstanding debt securities issued and outstanding or authorized or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities or guarantees outstanding at the close of business on July 31, 2010.

We are pursuing certain proposed transactions pursuant to a memorandum of negotiation dated August 18, 2010. Upon the completion of such proposed transactions, Chongqing Yuneng would become our new subsidiary and its borrowings would be consolidated into those of our Group. As of July 31, 2010, the unaudited pro forma outstanding borrowings of the Enlarged Group was RMB6,052.8 million, representing the total outstanding borrowings of our Group and Chongqing Yuneng as of July 31, 2010.

The following table shows the weighted average effective annual interest rates for the bank borrowings of our Group and the unaudited pro forma bank borrowings of the Enlarged Group as of each of the dates indicated:

	As of December 31,			As of March 31,	As of July 31,	
	2007	2008	2009	2010	2010	
	The Group	The Group	The Group	The Group	The Group	The Enlarged Group
					(unaudited)	
Bank borrowings	7.55%	8.54%	6.70%	6.18%	7.09%	7.07%

The following table shows the maturity profile of the long-term borrowings of our Group and the unaudited pro forma long-term borrowings of the Enlarged Group as of each of the dates indicated:

	As of December 31,			As of March 31,	As of July 31,	
	2007	2008	2009	2010	2010	
	The Group	The Group	The Group	The Group	The Group	The Enlarged Group
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
					(unaudited)	
Borrowings						
Within one year	562,340	688,100	411,103	580,264	505,520	517,520
Between one and two years	619,600	1,391,400	1,275,590	1,174,690	2,264,000	2,483,430
Between two and five years	547,700	40,000	718,800	1,108,800	2,624,913	2,647,913
Total	1,729,640	2,119,500	2,405,493	2,863,754	5,394,433	5,648,863

Consistent with others in the industry, we monitor capital on the basis of our gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and long-term borrowings) less cash and cash equivalents. Total capital is calculated as total equity plus net debt. The following table shows our gearing ratio as of the dates indicated:

	As of December 31,			As of March 31,	As of July 31,	
	2007	2008	2009	2010	2010	
	The Group	The Group	The Group	The Group	The Group	The Enlarged Group
					(unaudited)	
Gearing ratio	68%	61%	28%	55%	74%	71%

As of July 31, 2010, the debt-to-equity ratio of our Group is 10.5 times.

Collateral

Part of the borrowings of our Group and the unaudited pro forma bank borrowings of the Enlarged Group (consisting of our Group and Chongqing Yuneng) as set forth above are secured borrowings from banks and other financial institutions. As of December 31, 2007, 2008 and 2009 and March 31 and July 31, 2010, such secured borrowings of our Group amounted to RMB2,297.1 million, RMB2,399.1 million, RMB2,505.5 million, RMB3,073.8 million and RMB5,748.4 million, respectively, and the unaudited pro forma secured borrowings of the Enlarged Group (consisting of our Group and Chongqing Yuneng) as of July 31, 2010 were RMB6,002.8 million, which were jointly secured by certain of our properties (including land use rights) as follows:

	As of December 31,			As of March 31,	As of July 31,	
	2007	2008	2009	2010	2010	
	The Group	The Group	The Group	The Group	The Group	The Enlarged Group
	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)
					(unaudited)	
Properties under development	1,832	1,771	1,459	1,622	3,045	3,314
Completed properties held for sale	416	950	408	332	369	377
Investment properties	–	–	154	154	203	203
Total	2,248	2,721	2,021	2,108	3,617	3,894

In addition to the above, we have pledged our equity interests in certain of our subsidiaries as collateral for certain loans. For more information, see "Summary – Recent Financings" and "– Recent Developments – Certain Recent Financings" above.

Contingent Liabilities

Guarantees for mortgage facilities

We have arranged bank financing for certain purchasers of our property units and provided guarantees to secure the obligations of such purchasers for repayment of their mortgage loans. Such guarantees terminate upon any of (i) the issuance of the Property Ownership Certificate and the property encumbrance certificate, which generally takes place within two to three years after we deliver possession of the relevant property to the purchasers; (ii) the settlement of the relevant mortgage loans between banks and purchasers of our properties; or (iii) the completion of advance registration of the mortgage, which is generally conducted when the purchasers apply for mortgage loans. Our guarantee period starts from the dates of grant of the mortgages. In line with industry practice, we do not conduct independent credit checks on our customers but rely on the credit checks conducted by the mortgagee banks. See "Risk Factors – Risks Relating to Our Business – We guarantee the mortgages provided to our purchasers and consequently are liable to the mortgagee banks if our purchasers default on their mortgage payments." The following shows the financial guarantees provided by our Group and the unaudited pro forma financial guarantees provided by the Enlarged Group (consisting of our Group and Chongqing Yuneng), in respect of mortgage facilities for certain purchasers of our properties, as of the dates indicated:

	As of December 31,			As of March 31,	As of July 31,	
	2007	2008	2009	2010	2010	
	The Group	The Group	The Group	The Group	The Group	The Enlarged Group
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
					(unaudited)	
Guarantees for mortgage facilities . . .	1,081,720	1,500,806	1,459,718	1,058,540	1,587,181	2,482,723

Guarantee for Exchangeable Bonds

On October 26, 2007, Sunac International issued the Exchangeable Bonds, which were partly guaranteed by our investments in our subsidiaries as security for the performance by Mr. Sun and Sunac International of their obligations under the Exchangeable Bonds. Such guarantees and security will be released upon the Listing. Our relevant financial guarantee liability was initially recognized at its fair value, which was US$47,830 (equivalent to RMB349,000), as valued by DTZ, on October 26, 2007. The following shows the fair value of the guarantees for the Exchangeable Bonds as of the dates indicated:

	As of December 31,			As of March 31,	As of July 31,
	2007 (RMB'000)	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)	2010 (RMB'000) (unaudited)
Guarantee for Exchangeable Bonds	349	175	–	–	–

Contractual commitments and obligations

The following table shows the commitments for capital expenditure of our Group and the unaudited pro forma commitments for capital expenditure of the Enlarged Group (consisting of our Group and Chongqing Yuneng) as of the dates indicated:

	As of December 31,			As of March 31,	As of July 31,	
	2007	2008	2009	2010	2010	
	The Group	The Group	The Group	The Group	The Group	The Enlarged Group
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
					(unaudited)	
Property development expenditure						
– Contracted but not provided for	2,825,348	3,129,236	1,313,951	2,066,534	1,328,721	2,069,445
– Authorized but not contracted for	11,514,938	10,635,786	10,162,313	11,481,216	14,412,911	15,081,638
Total	14,340,286	13,765,022	11,476,264	13,547,750	15,741,632	17,151,083

The following table shows our minimum lease payments under non-cancelable operating leases as of July 31, 2010:

	Payments due by period		
	No later than one year (RMB'000)	Later than one year and no later than five years (RMB'000)	Total (RMB'000)
Operating lease commitments	1,119	466	1,585

We expect to fund these contractual obligations principally from proceeds from pre-sales and sales of our properties, borrowings from commercial banks and other parties and internal funds.

Off-balance sheet commitments and arrangements

Except for the contingent liabilities set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have retained or contingent interests in assets transferred to an unconsolidated entity or a similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets. We have not entered into any derivative contracts that are indexed to our Shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. 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.

Our Directors confirm that as of the Latest Practicable Date there had been no material changes in the indebtedness, commitments and contingent liabilities of the Enlarged Group since July 31, 2010.

CERTAIN BALANCE SHEET ITEMS

Properties under development

Properties under development are properties in respect of which we have obtained the relevant Land Use Right Certificates as well as Construction Permits and are classified as current assets on our consolidated balance sheet. Properties under development are stated at the lower of cost and net realizable value. As of December 31, 2007, 2008 and 2009 and March 31, 2010, we had properties under development valued at RMB5,538.8 million, RMB4,875.2 million, RMB4,495.4 million and RMB6,013.4 million, respectively. The changes in properties under development during the Track Record Period were primarily attributable to land acquisitions and the timing of commencement and completion of construction of the relevant projects. Completed and undelivered properties are transferred from properties under development to completed properties held for sale.

The following table shows the breakdown of our properties under development as of the dates indicated:

	As of December 31,			As of March 31,
	2007 (RMB'000)	**2008 (RMB'000)**	**2009 (RMB'000)**	**2010 (RMB'000)**
Land use rights	3,618,042	3,178,289	3,022,612	4,284,124
Construction costs	1,822,909	1,599,723	1,421,399	1,649,341
Capitalized financial cost	97,880	97,175	51,368	79,943
Total	5,538,831	4,875,187	4,495,379	6,013,408

Completed properties held for sale

Completed properties held for sale represent completed properties remaining unsold at the end of each financial period and 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 the ordinary course of business, less applicable selling expenses, or by management estimates of the estimated selling prices based on prevailing market conditions. As of December 31, 2007, 2008 and 2009 and March 31, 2010, we had completed properties held for sale of RMB1,599.5 million, RMB2,229.0 million, RMB1,312.8 million and RMB1,211.2 million, respectively. We have obtained the Land Use Right Certificates in respect of all completed properties held by us for sale.

Investment properties

We hold a certain amount of investment properties comprising properties held for long-term rental yields and not occupied by us. We classify investment properties as non-current assets. We have obtained the Land Use Right Certificates in respect of all investment properties held by us. As of each of December 31, 2007, 2008 and 2009 and March 31, 2010, our investment properties were valued by DTZ, an independent property valuer, based on valuations of current prices in an active market for all properties. As of December 31, 2007, 2008 and 2009 and March 31, 2010, our investment properties had a value of RMB458.5 million, RMB433.0 million, RMB583.5 million and RMB583.5 million, respectively.

Other receivables

As of December 31, 2007, 2008 and 2009 and March 31, 2010, we had other receivables of RMB486.4 million, RMB383.0 million, RMB294.5 million and RMB382.1 million, respectively. The following table shows the breakdown of our other receivables as of the dates indicated:

	As of December 31,			As of March 31,
	2007 (RMB'000)	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)
Prepaid taxes	257,128	244,029	189,431	240,529
Prepayment to non-controlling investor for equity transaction	177,534	–	–	–
Prepayment for property projects	20,976	61,678	31,702	94,894
Deposits for guarantee to customers' bank loans	21,262	48,078	33,488	15,391
Others	9,477	29,226	39,903	31,298
Total	486,377	383,011	294,524	382,112

Amounts due from related parties

The following table shows the amounts due from related parties to our Group as of the dates indicated:

	As of December 31,			As of March 31,
	2007 (RMB'000)	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)
Amounts due from related parties:				
– Yingxin Xinheng	2,237	45	–	–
– Shougang Sunac	–	–	–	4,630
– Shouchi Yuda	94,762	56,000	56,000	56,000
– Chongqing Yuneng	135,760	104,390	53,446	24,034
– Chongqing Shangshan	–	49,950	–	–
	232,759	210,385	109,446	84,664

The amounts of RMB56.0 million and RMB24.0 million due from Shouchi Yuda and Chongqing Yuneng, respectively, as of March 31, 2010 represented the shareholder's loans granted by us in the capacity of joint venture partner to finance the construction and development costs of these associated project companies. The principal amounts of these loans were determined in accordance with the relevant agreements with our joint venture partners or in proportion to our interest in the relevant associated project companies, as applicable. Chongqing Yuneng repaid RMB24.0 million to us in April 2010. The amount due from Shouchi Yuda will be repaid upon the completion and sales of the East Fairyland project and may not be repaid in full prior to the Listing. The amount of RMB4.6 million due from Shougang Sunac as of March 31, 2010 represented an interest amount attributable to certain investment in Shougang Sunac, which Shougang Sunac had yet to pay us as of March 31, 2010. We expect to receive such amount by the end of 2010.

Trade and other payables

As of December 31, 2007, 2008 and 2009 and March 31, 2010, we had trade and other payables of RMB2,433.8 million, RMB2,131.4 million, RMB2,188.2 million and RMB2,922.8 million, respectively. The following table shows the breakdown of our trade and other payables as of the dates indicated:

	As of December 31,			As of March 31,
	2007 (RMB'000)	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)
Trade payables	1,563,810	1,329,577	1,208,498	1,120,047
Notes payable	36,300	74,000	362,222	1,002,000
Other payables	576,635	459,955	252,134	438,937
Payroll and welfare payables	30,261	15,319	16,979	5,817
Other taxes payable	226,833	252,534	348,369	355,974
Total	2,433,839	2,131,385	2,188,202	2,922,775

Our trade payables represented mainly the construction fees payable to our construction contractors. We do not have uniform settlement terms with our contractors. We typically agree with our construction contractors to settle up to 80% of the total construction costs by the time the construction of the project is completed and up to 85-90% by the time we finally agree with the contractor on the amount of the aggregate construction costs. Our contractual arrangements also typically provide for our withholding of a warranty fee or retention money of up to 5% of the aggregate construction costs to provide additional quality assurance, subject to settlement within one to two months after the expiry of the warranty period. As of December 31, 2007, 2008 and 2009 and March 31, 2010, our trade payables were RMB1,563.8 million, RMB1,329.6 million, RMB1,208.5 million and RMB1,120.0 million, respectively. Out of our trade payables as of March 31, 2010, a total of RMB1,222.1 million had been subsequently paid up to July 31, 2010.

The following table shows the aging analysis of our trade payables as of the dates indicated:

	As of December 31,			As of March 31,
	2007 (RMB'000)	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)
Within 90 days	548,589	603,596	683,415	443,209
90-180 days	256,392	41,244	10,830	206,946
180-365 days	19,716	141,823	80,551	10,169
Over 365 days	739,113	542,914	433,702	459,723
	1,563,810	1,329,577	1,208,498	1,120,047

Consistent with the industry practice, the construction period of our projects is typically longer than a year and our trade payables are recorded on an accrual basis according to the percentage of work completed for individual contracts. As such, as of March 31, 2010, a significant amount of our trade payables aged more than 365 days, of which we did not have any material amount overdue.

Advanced proceeds from customers

We record the proceeds we receive from pre-sales of our properties as advanced proceeds from customers within current liabilities on our consolidated balance sheet. We do not recognize these proceeds from pre-sales as revenue until we have completed the construction and delivered the relevant property to the purchaser. As of December 31, 2007, 2008 and 2009 and March 31, 2010, our advanced proceeds from customers were RMB3,610.4 million, RMB3,276.5 million, RMB2,456.5 million and RMB2,985.9 million, respectively. Out of the advanced proceeds from customers as of March 31, 2010, a total of RMB359.7 million had been subsequently recognized as revenue up to July 31, 2010.

The following table shows our advanced proceeds from customers by project as of the dates indicated:

	As of December 31,			As of March 31,
	2007 (RMB'000)	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)
Magnetic Capital	1,055,433	1,155,269	438,708	476,637
Mind-Land International	1,378,202	443,699	643,244	688,160
Joy Downtown	8,556	13,695	2,627	2,606
Chongqing Olympic Garden	607,122	835,459	577,785	777,631
Swan Lake	455,938	571,016	355,619	456,398
Dream of City	105,108	257,395	336,337	433,170
Suzhou 81	–	–	102,155	136,487
Central of Glorious	–	–	–	6,095
Others	–	–	–	8,706
Total	3,610,359	3,276,533	2,456,476	2,985,889

MARKET RISKS

Our activities expose us to a variety of financial risks, including foreign exchange risk, interest rate risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Interest rate risk

Our income and operating cash flows are substantially independent from changes in market interest rates. We have no significant interest-bearing assets. Our exposure to changes in interest rates is mainly attributable to our long-term borrowings. Borrowings at variable rates expose us to cash flow interest-rate risk. See "Risk Factors – Risks Relating to Our Business – We maintain a substantial level of indebtedness to finance our capital intensive business, and we may not have adequate cash flow to fund our operations or to service our financing obligations." Borrowings issued at fixed rates expose us to fair value interest-rate risk.

As of December 31, 2007, 2008 and 2009 and March 31, 2010, if interest rates on bank borrowings had been 1.0% higher or lower with all other variables held constant, our profit for the respective year or period would have been lower or higher by RMB16.4 million, RMB25.3 million, RMB18.6 million and RMB8.5 million, respectively.

As of the Latest Practicable Date, we had not used any interest rate swaps to hedge our exposure to interest rate risk. We analyze our interest rate exposure monthly by considering refinancing, renewal of existing positions and alternative financing.

Credit and liquidity risks

Our cash transactions are limited to high-credit-quality institutions. The extent of our credit exposure is represented by the aggregate balance of cash deposited in banks and trade and other receivables. We have arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments, and we bear an associated credit risk. See "– Liquidity and Capital Resources – Indebtedness – Contingent liabilities."

Our management aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing, including short-term and long-term bank borrowings to meet our construction commitments. Due to the dynamic nature of the underlying business, our finance department maintains flexibility in funding by maintaining adequate amounts of cash and cash equivalents and flexibility in funding through having available source of financing.

Commodity risk

We are exposed to fluctuations in the prices of raw materials for our property development, including steel and cement. We have not engaged in any hedging activities. Purchasing costs of raw materials are generally accounted for as part of the construction contractor fees pursuant to our arrangements with the relevant construction contractors. Accordingly, rising prices for construction materials can be expected to affect our construction costs in the form of increased fee quotes by our construction contractors and increased costs for such materials to the extent we bear such costs ourselves. As a result, fluctuations in the prices of our construction materials can be expected to have a significant impact on our business, financial condition and results of operations.

Inflation or deflation risk

According to the National Bureau of Statistics of China, the PRC's overall national inflation rate, as represented by changes in the general consumer price index, was approximately 4.8% and 5.9% in 2007 and 2008, respectively. In 2009, the PRC recorded a deflation of approximately 0.7%. Although inflation or deflation has not had a significant effect on our business during the Track Record Period, there can be no assurance as to its impact in future periods.

Foreign exchange risk

We conduct our business principally in Renminbi. As of March 31, 2010, all or substantially all of our assets and liabilities were denominated in Renminbi. In the opinion of the Directors, we do not have significant foreign currency risk exposure. Subsequent to this Global Offering, a depreciation of the Renminbi would be likely to adversely affect the amount of any dividends we pay to investors outside of the PRC, while an appreciation of the Renminbi would be likely to adversely affect the amount of proceeds we receive from the Global Offering and any subsequent overseas debt or equity offering depending on the timing of the conversion of such proceeds into Renminbi. See "Risk Factors – Risks Relating to the PRC – Fluctuation in the value of RMB may have a material adverse effect on our business and on your investment" for more information.

PROPERTY INTERESTS AND PROPERTY VALUATION

We own all of our properties located in the PRC. These properties include properties held for future development and under development for sale, completed properties and investment properties. Please refer to the property valuation report in Appendix IV to this prospectus for details of our property interests as of June 30, 2010.

The following shows the reconciliation of the net book value of our properties as of March 31, 2010 as extracted from the Accountant's Report included in Appendix I to this prospectus to the valuation of properties attributable to us as of June 30, 2010 set forth in the property valuation report included in Appendix IV to this prospectus:

	RMB'000
Net book value of our properties as of March 31, 2010	
– Investment properties	583,500
– Properties under development	6,013,408
– Completed properties held for sale	1,211,218
	7,808,126
Less:	
Cost of sales of properties sold for the three months ended June 30, 2010 *(unaudited)*	(230,269)
Add:	
Addition to properties under development and completed properties held for sale from March 31, 2010 to June 30, 2010 *(unaudited)*	1,049,469
Gain/(loss) from fair value of investment properties for the three months ended June 30, 2010 *(unaudited)*	–
Net book value of our properties as of June 30, 2010 *(unaudited)* subject to valuation as set forth in the property valuation report included in Appendix IV	8,627,326
Revaluation surplus, before income tax, LAT and minority interests[1]	17,695,674
	26,323,000
Value of properties attributable to us as of June 30, 2010	29,546,900
Less:	
Value of properties held by jointly controlled entities and associates that are attributable to us as of June 30, 2010	(3,223,900)
	26,323,000

Note:

(1) "Revaluation surplus, before income tax, LAT and minority interests" represents the excess of market value of our properties under development and completed properties held for sale over their book value and has not been included in our consolidated financial information because such properties are stated at the lower of cost and net realizable value for accounting purposes.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

As of the Latest Practicable Date, our Directors confirm that there were no circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

PROFIT ESTIMATE FOR THE SIX MONTHS ENDED JUNE 30, 2010

We estimate that, on the bases set forth in Appendix III to this prospectus and in the absence of unforeseen circumstances, our profit attributable to equity holders of the Company for the six months ended June 30, 2010 is as follows:

Unaudited estimated consolidated profit attributable to equity holders of the Company for the six months ended June 30, 2010(1)(2)	Not less than RMB187.4 million
Unaudited estimated fair value gains on investment properties (net of deferred tax)(2)	nil
Unaudited pro forma estimated earnings per Share for the six months ended June 30, 2010(3)	Not less than RMB0.062 (approximately HK$0.072)

Notes:

(1) Our Directors have prepared our unaudited estimated consolidated profit attributable to equity holders of the Company for the six months ended June 30, 2010 based on (i) our audited consolidated results for the three months ended March 31, 2010 as set forth in the Accountant's Report in Appendix I to this prospectus and (ii) our unaudited management accounts for the three months ended June 30, 2010. The estimate has been prepared on a basis consistent in all material respects with the accounting policies adopted by us that are set forth in Note 2 to the Accountant's Report in Appendix I to this prospectus.

(2) Our unaudited estimated consolidated profit attributable to equity holders of the Company for the six months ended June 30, 2010 includes nil estimated fair value gains on investment properties. We arrived at the estimated fair value gain on investment properties based on the market value of such investment properties valued by DTZ, the independent valuer. According to DTZ's valuation, the fair value of our investment properties as of each of March 31, 2010 and June 30, 2010 had not changed from that as of December 31, 2009. The income approach has been consistently adopted to assess the market value of our investment properties as of December 31, 2009, March 31, 2010 and June 30, 2010. We had the same portfolio of investment properties, comprising completed investment properties only, as of each of these dates.

(3) The calculation of our unaudited pro forma estimated earnings per Share for the six months ended June 30, 2010 is based on the unaudited estimated consolidated profit attributable to equity holders of the Company for the six months ended June 30, 2010 and assumes that a total of 3,000,000,000 Shares were in issue during the entire six months, as if the Global Offering had occurred on January 1, 2010, without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options or the Trustee Option.

We have undertaken to the Stock Exchange that our interim report for the six months ended June 30, 2010 will be audited pursuant to Rule 11.18 of the Listing Rules.

DIVIDENDS AND DISTRIBUTABLE RESERVES

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

Except insofar as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends will be declared and paid according to the amount paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a Share in advance of equity calls will for this purpose be treated as paid up on the Share and (ii) all dividends will 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 member or in respect of any Shares all sums of money (if any) presently payable by him 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:

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

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC law requires that dividends be paid only out of net profits, calculated in accordance with PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. All dividends declared and paid upon the equity interests in each of our WFOEs, to our Company and our relevant overseas subsidiaries, as the case may be, in Renminbi may be converted into foreign currencies and transferred out of the PRC, provided that: (a) such WFOE has duly adopted resolutions approving the distribution and payment of such dividends in accordance with applicable PRC laws and its articles of association; (b) the losses (if any) of previous fiscal years of such WFOE have been properly made up in accordance with applicable PRC laws and its articles of association; (c) such WFOE has fully paid the applicable tax in accordance with the PRC laws; (d) such WFOE has made provisions for the reserve fund and employees bonus and welfare fund in accordance with the PRC laws and its articles of association; (e) the remittance of dividends outside the PRC complies with relevant procedures as required by the PRC laws on foreign exchange control; and (f) such WFOE has deducted and withheld from the dividends distributed to its shareholder a withholding tax at a rate in accordance with the PRC laws, and has paid such withholding tax on behalf of its shareholder since January 1, 2008. PRC laws also require foreign-invested enterprises to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. Furthermore, distributions from our subsidiaries may be restricted if they incur debts or losses or as a result of any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

Our Directors will declare dividends, if any, in Hong Kong dollars with respect to Shares on a per Share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to the approval of our Shareholders.

No dividend was declared by our Company in 2007, 2008 or 2009.

On May 10, 2010, our Board declared an interim cash dividend of US$28.0 million payable only to our Controlling Shareholder Sunac International. Our two other Shareholders at the time, Bain Capital and DB London, agreed to waive their rights to the interim cash dividend declared on May 10, 2010. The purpose of the declaration of such interim cash dividend was to facilitate the payment of interest on the Exchangeable Bonds by Sunac International to the Bondholders. Bain Capital and DB London as Shareholders agreed to waive their entitlement to the interim cash dividend because they as Bondholders would be entitled to their portions of interest payment made by Sunac International. We paid the interim cash dividend on June 11, 2010, using funds originally distributed by Sunac Zhidi out of its profit for the year ended December 31, 2008.

Our past dividend payment history is not, and should not be taken as, an indication of our potential future practice with respect to dividend payments. The amount of dividends to be distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders. There can be no assurance that dividends of any amount will be declared or distributed in any year.

As of March 31, 2010, we had distributable reserves of RMB1,412.4 million available for distribution to the equity holders of the Company.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of our adjusted net tangible assets prepared on the basis of the notes set forth below for the purpose of illustrating the effect of the Global Offering on our net tangible assets attributable to equity holders of the Company as of March 31, 2010 as if the Global Offering had taken place on March 31, 2010, assuming the Over-allotment option is not exercised and without taking into account any Shares which may be allotted and issued upon the exercise of the Pre-IPO Share Options or the Trustee Option.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of March 31, 2010 or any future dates following the Global Offering.

	Audited consolidated net tangible assets attributable to equity holders of the Company as of March 31, 2010(1)	Estimated net proceeds from the Global Offering(2)	Unaudited adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share(3)	
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB)	(HK$)(4)
Based on an Offer Price of HK$3.18 per Share	993,186	1,850,321	2,843,507	0.95	1.10
Based on an Offer Price of HK$3.98 per Share	993,186	2,348,515	3,341,701	1.11	1.29

Notes:

(1) Our audited consolidated net tangible assets attributable to equity holders of the Company as of March 31, 2010 is based on our audited consolidated net assets attributable to equity holders of the Company of RMB1,306.5 million, as extracted from the Accountant's Report included in Appendix I to this prospectus, with an adjustment for our intangible assets of RMB313.3 million.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer prices of HK$3.18 per Share and HK$3.98 per Share after deduction of the underwriting fees and other related expenses payable by our Company. We may pay the Underwriters an additional discretionary incentive of up to 0.5% of the aggregate Offer Price payable for the Offer Shares. If we decide to pay such additional incentive fee, the net proceeds from the Global Offering and the pro forma adjusted net tangible assets of our Group attributable to the equity holders of the Company will decrease. The calculation for estimated net proceeds takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option. Such amounts are converted from Hong Kong dollars into Renminbi at the rate of HK$1.00 to RMB0.8649, rounded from the exchange rate set by the PBOC for foreign transactions prevailing on September 17, 2010.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 3,000,000,000 Shares were in issue assuming that the Global Offering has been completed on March 31, 2010 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options or the Trustee Option.

(4) The unaudited pro forma adjusted net tangible assets per Share are converted from Renminbi into Hong Kong dollars at the rate of RMB0.8649 to HK$1.00, rounded from the exchange rate set by the PBOC for foreign transactions prevailing on September 17, 2010.

(5) As of June 30, 2010, our properties under development and completed properties held for sale were valued by DTZ, an independent property valuer. The net revaluation surplus, representing the excess of market value of these property interests over their book value, has not been included in our consolidated financial information as of March 31, 2010 because our properties under development and completed properties held for sale are stated at the lower of cost and net realizable value for accounting purposes. The above adjustment does not take into account such revaluation surplus.

(6) No adjustment has been made to reflect any trading result or other transaction we have entered into subsequent to March 31, 2010.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that as of the Latest Practicable Date there had been no material adverse change in our financial or trading position or our prospects since March 31, 2010, being the date of the latest audited consolidated balance sheet as set forth in "Appendix I – Accountant's Report" to this prospectus.