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Longfor Properties Co. Ltd.
龍湖地產有限公司

(於開曼群島註冊成立的有限公司)

(股份代號：960)

海外監管公佈

本海外監管公佈乃根據香港聯合交易所有限公司(「聯交所」)證券上市規則(「上市規則」)第13.09(2)條的規定刊發。茲提述龍湖地產有限公司(「本公司」)於二零一一年三月二十四日及二零一一年四月一日刊發關於票據發行的公佈(「票據發行公佈」)。除另行界定外，本文所採用的所有詞彙均具有票據發行公佈所界定的相同涵義。請參閱隨附關於票據的發售備忘錄(「發售備忘錄」)，該發售備忘錄已於二零一一年四月七日於新加坡證券交易所有限公司的網站發佈。

發售備忘錄在聯交所的網站公佈只是為了便於向香港的投資者進行同等的資訊傳達，並遵守上市規則第13.09(2)條的規定，此外並無任何其他目的。

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承董事會命
龍湖地產有限公司
主席
吳亞軍

香港，二零一一年四月七日

於本公佈刊發日期，本公司的董事為吳亞軍女士、房晟陶先生、陳凱先生、秦力洪先生、*Frederick Peter Churchouse*先生*、陳志安先生*及項兵博士*。

* 獨立非執行董事

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A OR (2) PERSONS OR ADDRESSEES OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to this offering memorandum following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of this offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

Confirmation and your representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, investors must be either (1) qualified institutional buyers ("QIBs") (within the meaning of Rule 144A under the Securities Act) or (2) persons outside the United States. By accepting the e-mail and accessing this offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) persons outside the United States and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of such offering memorandum by electronic transmission.

You are reminded that this offering memorandum has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this offering memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of Morgan Stanley & Co. International plc and Standard Chartered Bank as Joint Global Coordinators, or Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, Morgan Stanley & Co. International plc and Standard Chartered Bank, as Joint Bookrunners and Joint Lead Managers, or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

US\$750,000,000

**Longfor Properties Co. Ltd.****龍湖地產有限公司***(Incorporated in the Cayman Islands with limited liability)***9.5% Senior Notes due 2016****Issue Price: 100%****plus, in each case, accrued interest, if any, from the issue date**

Our 9.5% Senior Notes due 2016 (the "Notes") will bear interest from April 7, 2011 at 9.5% per annum payable semiannually in arrears on April 7 and October 7 of each year, beginning October 7, 2011. The Notes will mature on April 7, 2016.

The Notes are unsecured, senior obligations of Longfor Properties Co. Ltd. (the "Company"), guaranteed by certain of our existing subsidiaries (the "Subsidiary Guarantors"), other than those organized under the laws of the PRC and Long Growth SRL. We refer to the guarantors by the Subsidiary Guarantors as Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of the Company may be replaced by a limited-recourse guarantee (the "JV Subsidiary Guarantee"). We refer to the subsidiaries providing a JV Subsidiary Guarantee as JV Subsidiary Guarantors.

We may at our option redeem the Notes, in whole or in part, at any time and from time to time on or after April 7, 2014, at the redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to the redemption date. At any time and from time to time prior to April 7, 2014, we may redeem up to 35% of the Notes, at a redemption price of 109.5% of the principal amount, plus accrued and unpaid interest, if any, in each case, using the net cash proceeds from sales of certain kinds of capital stock. In addition, we may redeem the Notes at any time, in whole but not in part, at a price equal to 100% of the principal amount of such Notes plus (i) accrued and unpaid interest (if any) to the redemption date and (ii) a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control Triggering Event (as defined in the indenture governing the Notes (the "Indenture")), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will be (1) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (2) at least *pari passu* in right of payment against the Company with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law), (3) effectively subordinated to the other secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any), to the extent of the value of the assets serving as security therefor, and (4) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined herein). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any). See "Risk Factors — Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees."

For a more detailed description of the Notes, see the section entitled "Description of the Notes" beginning on page 197.

Investing in the Notes involves risks. See the section entitled "Risk Factors" beginning on page 14.

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST or quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold by the Initial Purchasers only (1) to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A ("Rule 144A"), and (2) outside the United States in compliance with Regulation S under the Securities Act ("Regulation S"). For a description of certain restrictions on resale or transfer, see the section entitled "Transfer Restrictions" beginning on page 273.

It is expected that the delivery of the Notes will be made through the facilities of The Depository Trust Company (the "DTC"), on or about April 7, 2011 in New York, New York against payment therefor in immediately available funds.

Joint Global Coordinators**Morgan Stanley****Standard Chartered Bank****Joint Bookrunners and Joint Lead Managers****Citi****HSBC****Morgan Stanley****Standard Chartered Bank**

The date of this offering memorandum is March 31, 2011

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This offering memorandum does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

IN CONNECTION WITH THIS OFFERING, MORGAN STANLEY & CO. INTERNATIONAL PLC, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME THAT IS NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES.

We, having made all reasonable inquiries, confirm that: (i) this offering memorandum contains all information with respect to us, our subsidiaries and affiliates referred to in this offering memorandum and the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) that is material in the context of the issue and offering of the Notes; (ii) the statements

contained in this offering memorandum relating to us and our subsidiaries and our affiliates are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this offering memorandum with regard to us and our subsidiaries and affiliates are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to us, our subsidiaries and affiliates, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), the omission of which would, in the context of the issue and offering of the Notes, make this offering memorandum, as a whole, misleading in any material respect; and (v) we have made all reasonable enquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering memorandum before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section entitled “Transfer Restrictions” below.

No representation or warranty, express or implied, is made by the Initial Purchasers or the Trustee or any of their respective affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchasers or the Trustee or any person affiliated with the Initial Purchasers or the Trustee in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (other than as contained herein and information given by our duly authorized officers and employees in connection with investors’ examination of us and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Initial Purchasers or the Trustee.

We are not, and the Initial Purchasers are not, making an offer to sell the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), and distribution of this offering memorandum, see the sections entitled “Transfer Restrictions” and “Plan of Distribution” below.

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. We are not making any

representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own professional advisors for legal, business, tax and other advice regarding an investment in the Notes.

We reserve the right to withdraw the offering of the Notes at any time, and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of purchase of the Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED 1955, AS AMENDED (“RSA”), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B OF THE RSA IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms “we,” “us,” “our,” the “Company” and words of similar import, we are referring to Longfor Property Co. Ltd. itself, or to Longfor Property Co. Ltd. and its consolidated subsidiaries, as the context requires.

Market data, industry forecast and PRC and property industry statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchasers or their respective directors and advisors, and neither we, the Initial Purchasers nor our or their respective directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Due to possibly inconsistent collection methods and other problems, such statistics herein may be inaccurate. You should not unduly rely on such market data, industry forecast and PRC and property industry statistics.

In this offering memorandum, all references to “US\$” and “U.S. dollars” are to United States dollars, the official currency of the United States of America, or the United States or U.S.; all

references to “HK\$” and “H.K. dollars” are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC, or Hong Kong; and all references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China, or China or the PRC.

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.6000 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2010, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK\$7.7810 to US\$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2010. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see the section entitled “Exchange Rate Information.”

References to “PRC” and “China,” for the statistical purposes of this offering memorandum, except where the context otherwise requires, do not include Hong Kong, Macau Special Administrative Region of the PRC, or Macau, or Taiwan. “PRC government” or “State” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governments) and instrumentalities thereof, or, where the context requires, any of them.

References to the “Pan Bohai Rim” mean the provinces of Liaoning, Shandong and Hebei of the PRC and the municipalities of Beijing and Tianjin of the PRC. References to the “Western Region” mean the provinces of Yunnan, Sichuan and Shaanxi and the municipality of Chongqing of the PRC. References to the “Yangtze River Delta” mean the provinces of Jiangsu and Zhejiang of the PRC and the municipality of Shanghai of the PRC.

A property is considered sold after we have executed the purchase contract with a customer and have delivered the property to the customer. All site area and gross floor area, or GFA, information presented in this offering memorandum represent the site area and GFA of the entire project, including that attributable to the minority shareholders of our non-wholly owned project companies.

In this offering memorandum, unless the context otherwise requires, all references to “affiliate” are to a person or entity directly or indirectly controlled by, or under the direct or indirect common control of, another person or entity; all references to “subsidiary” are used with the meaning ascribed to it in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, or the Listing Rules.

In this offering memorandum, a land grant contract refers to a state-owned land use rights grant contract (國有土地使用權出讓合同) between a developer and the relevant PRC governmental land administrative authorities, typically the local state-owned land bureaus.

In this offering memorandum, a land use rights certificate refers to a state-owned land use rights certificate (國有土地使用證) issued by a local real estate and land resources bureau with respect to the land use rights; a construction land planning permit refers to a construction land planning permit (建設用地規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction works planning permit refers to a construction works planning permit (建設工程規劃許可證) issued by local urban zoning and planning bureaus or equivalent authorities in China; a construction permit refers to a construction works commencement permit (建築工程施工許可證) issued by local construction committees or equivalent authorities in China; a pre-sale permit refers to a commodity property pre-sale permit

(商品房預售許可證) issued by local housing and building administrative bureaus or equivalent authorities with respect to the pre-sale of relevant properties; a certificate of completion refers to a construction project planning inspection and clearance certificate (建設工規劃驗收合格證) issued by local urban zoning and planning bureaus or equivalent authorities or equivalent certificate issued by relevant authorities in China with respect to the completion of property projects subsequent to their on-site examination and inspection; and a property ownership certificate refers to a property ownership and land use rights certificate (房地產權證) issued by a local real estate and land resources bureau with respect to the land use rights and the ownership rights of the buildings on the relevant land.

Totals presented in this offering memorandum may not total correctly because of rounding of numbers.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include statements relating to:

- our business and operating strategies;
- our capital expenditure and property development plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- various business opportunities that we may pursue;
- the interpretation and implementation of the existing rules and regulations relating to land appreciation tax and its future changes in enactment, interpretation or enforcement;
- the prospective financial information regarding our businesses;
- availability and costs of bank loans and other forms of financing;
- our dividend policy;
- projects under development or under planning;
- the regulatory environment of our industry in general;
- the performance and future developments of the property market in China or any region in China in which we may engage in property development;
- changes in political, economic, legal and social conditions in China, including the specific policies of the PRC central and local governments affecting the regions where we operate, which affect land supply, types of property projects, availability and cost of financing, presale, pricing, foreign investments in property development, and volume of our property development projects;
- significant delay in obtaining the various permits, proper legal titles or approvals for our properties under development or under planning;
- timely repayments by our purchasers of mortgage loans guaranteed by us;
- changes in competitive conditions and our ability to compete under these conditions;

- the performance of the obligations and undertakings of the third-party contractors under various construction, building, interior decoration, material and equipment supply and installation contracts;
- changes in currency exchange control and rates; and
- other factors beyond our control.

In some cases, you can identify forward-looking statements by such terminology as “may,” “will,” “should,” “could,” “would,” “expect,” “intend,” “plan,” “anticipate,” “going forward,” “ought to,” “seek,” “project,” “forecast,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of these terms or other comparable terminology. Such statements reflect the current views of our management with respect to future events, operations, results, liquidity and capital resources and are not guarantee of future performance, some of which may not materialize or may change. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that those expectations will prove to be correct, and you are cautioned not to place undue reliance on such statements. In addition, unanticipated events may adversely affect the actual results we achieve. Important factors that could cause actual results to differ materially from our expectations are disclosed under the section entitled “Risk Factors” in this offering memorandum. Except as required by law, we undertake no obligation to update or otherwise revise any forward looking statements contained in this offering memorandum, whether as a result of new information, future events or otherwise after the date of this offering memorandum. All forward-looking statements contained in this offering memorandum are qualified by reference to the cautionary statements set forth in this section.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with resales of the Notes, we are required to furnish upon request of a holder of the Notes and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are neither a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934 (the “Exchange Act”), as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

ENFORCEABILITY OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability, and each Subsidiary Guarantor is also incorporated outside the United States. The Cayman Islands has a different body of securities laws from the United States and protections for investors may differ. All of our assets and assets of the Subsidiary Guarantors are located outside the United States. In addition, all of our directors and officers and the Subsidiary Guarantors’ directors and officers are nationals or residents of countries other than the United States (principally in the PRC), and all or a substantial portion of such persons’ assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the Subsidiary Guarantors or such persons or to enforce against us or any of the Subsidiary Guarantors or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

Conyers Dill & Pearman, our counsel as to Cayman Islands laws, has advised us that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in the federal or state courts in the United States against us under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an *in personam* judgment for non-monetary relief, and would give a

judgment based thereon provided that: (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

Conyers Dill & Pearman, our counsel as to British Virgin Islands laws, has advised us that the courts of the British Virgin Islands would recognise as a valid judgment, a final and conclusive judgment *in personam* obtained in the federal or state courts in the United States against us under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the British Virgin Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the British Virgin Islands and (f) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

We have been advised by Davis Polk & Wardwell, our Hong Kong legal adviser, that Hong Kong has no statutory or other arrangement for the reciprocal enforcement of judgments with the United States. Subject to the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance (Cap 46 of the Laws of Hong Kong), a judgment given by the courts of United States could form the basis of a claim in the Hong Kong courts in respect of the judgment debt if:

- (a) the judgment was not obtained by fraud, misrepresentation or mistake nor obtained in proceedings which contravene the rules of natural justice;
- (b) enforcement of the judgment would not be contrary to public policy in Hong Kong;
- (c) the relevant court of United States had jurisdiction in accordance with the Hong Kong rules on the conflict of laws;
- (d) the judgment is for a definite sum of money which is not payable in respect of taxes or other charges of a similar nature or in respect of a fine or other penalty; and
- (e) the judgment is final and conclusive between the parties, but if it is capable of being appealed or an appeal is pending, the proceedings in Hong Kong are likely to be stayed by the courts of Hong Kong pending any such appeal being heard.

Further, we have been advised by our PRC legal counsel, Commerce & Finance Law Offices, that there is uncertainty as to whether the courts of the PRC would (a) enforce judgments of the U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States or (b) entertain original actions brought in the courts of the PRC, against us or our directors and officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

PRESENTATION OF FINANCIAL INFORMATION

Our financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including the section entitled “Risk Factors” and our consolidated financial statements and related notes thereto, before making an investment decision.

Overview

We are a national leader in China’s real estate market engaged in property development, investment and management across the country with strong presence in the Western Region, the Pan Bohai Rim and the Yangtze River Delta. In 2010, we ranked eighth among all PRC real estate developers with annual contract sales of RMB33.3 billion¹. As of December 31, 2010, we had 58 projects in 13 different cities with a total land bank of approximately 31.6 million sq.m. in GFA. We have a wide product spectrum and a broad customer base. We offer residences for the mass market, the middle class and the affluent and our residential property development projects cover a wide range of middle-to-high end products, including high-rise apartment buildings, low-rise garden apartments, townhouses and luxury stand-alone houses. We have also built various middle to large scale shopping malls and other commercial properties. Our aim is to become one of the most respected and trusted national market leaders in the property industry in China.

Our business originated in Chongqing, the largest and most populous municipality in Western China, in 1994. Under our “Multiple Products, Selected Regional Focus and Compounding Profit” strategy, we first expanded our business into the Pan Bohai Rim and then the Yangtze River Delta — in 2005, we established our presence in Beijing, China’s capital and the first-tier city of the Pan Bohai Rim, and in 2007, we expanded into Shanghai, the first-tier city of the Yangtze River Delta. Within each of these geographic regions, we have strategically aimed to initially capture the region’s top-tier city, which we believe to be of strategic significance to establishing our national presence and then leveraged our success in that city to expand into the next-tier cities. In the Western Region, leveraging our success in Chongqing, we subsequently expanded into Chengdu in 2005, Xi’an in 2007 and Yuxi in 2010. In the Pan Bohai Rim, we entered into Shenyang and Qingdao in 2009, Dalian and Yantai in 2010. In the Yangtze River Delta, we expanded our presence to Wuxi, Changzhou and Hangzhou in 2009 and Ningbo in 2011.

We have established strong market positions in our strategically focused regions. We are the market leader in Chongqing and ranked first in terms of both contract sales and GFA sold from 2005 to 2010¹. We are also a leading player in Chengdu, the capital city of Sichuan province, the most populous province in the Western Region. In Chengdu, we ranked third in terms of annual contract sales in 2010¹. In the Beijing residential property market, we ranked second in terms of annual contract sales in 2010¹. In Changzhou, Wuxi and Qingdao, our contract sales ranked second, third and ninth, respectively, in 2010, the first year we launched presales in these cities¹.

In 2008, 2009 and 2010, we entered into sales contracts for our property development projects (including those undertaken by our jointly controlled entities) with an aggregate contract value of approximately RMB10.2 billion, RMB18.4 billion and RMB33.3 billion, respectively. We believe that our strategic geographic expansion from the Western Region to the Pan Bohai Rim and the Yangtze River Delta, together with organic growth of our business in cities in which we have already established a presence, have contributed to our overall growth in contract sales and reduced the geographic concentration of our business. Our contract sales from the Western Region decreased from approximately 57.3% of our total contract sales in 2008 to 40.4% in 2010 and our

¹ Source: China Real Estate Information Corporation (“CRIC”), China Index Academy and dichan.sina.com.cn.

contract sales from the Pan Bohai Rim decreased from 39.4% of our total contract sales to 35.4% during the same period. During the same period, our contract sales from the Yangtze River Delta increased from 3.3% of our total contract sales to 24.2%. Revenue from property investment has also increased from RMB158.8 million to RMB287.3 million from 2008 to 2010, at a CAGR of 34.5%.

As of December 31, 2010, we had an aggregate of completed GFA of 857,421 sq.m. (including shopping malls held for investment purposes) remaining unsold and 58 projects under development or under planning with a total planned GFA of approximately 31,609,281 sq.m. As of December 31, 2010, we also owned six shopping malls in Chongqing and Chengdu with a total GFA of approximately 398,990 sq.m. (including car parks), currently being held for investment purposes. As of the same date, ten commercial properties we hold for investment purpose, with a total planned GFA of 1,728,563 sq.m. are currently under development or under planning. For further information regarding the GFA breakdown of our portfolio of projects under various stages of development, see “Business — Our Business — Overview of Our Projects.”

Our land bank includes GFA under development and GFA under planning. The following table summarizes our land bank by city as of December 31, 2010:

| CITIES | Completed GFA Remaining Unsold (sq.m.) | GFA Under Development (sq.m.) | GFA Under Planning (sq.m.) | Land Use Rights Yet to Be Obtained (sq.m.) ⁽¹⁾ |
|-----------------------------|--|-------------------------------------|----------------------------------|--|
| Western Region | | | | |
| Chongqing | 609,866 | 2,391,338 | 4,892,805 | 2,388,848 |
| Chengdu | 115,800 | 1,224,716 | 1,901,062 | 1,326,642 |
| Xi'an | — | 272,153 | 1,861,979 | 1,110,435 |
| Yuxi | — | — | 822,100 | 822,100 |
| <i>Subtotal</i> | <i>725,666</i> | <i>3,888,207</i> | <i>9,477,946</i> | <i>5,648,025</i> |
| Pan Bohai Rim Region | | | | |
| Beijing | 95,638 | 913,345 | 1,080,933 | 615,616 |
| Yantai | — | — | 6,996,311 | 6,996,311 |
| Dalian | — | — | 669,724 | 669,724 |
| Shenyang | — | 175,776 | 2,704,256 | 2,333,579 |
| Qingdao | — | 104,445 | 560,966 | 408,796 |
| <i>Subtotal</i> | <i>95,638</i> | <i>1,193,566</i> | <i>12,012,190</i> | <i>11,024,026</i> |
| Yangtze River Delta | | | | |
| Shanghai | 36,117 | 337,916 | 199,016 | — |
| Wuxi | — | 311,380 | 900,819 | 791,367 |
| Changzhou | — | 181,132 | 1,959,953 | 1,451,087 |
| Hangzhou | — | 92,582 | 1,054,573 | 807,272 |
| <i>Subtotal</i> | <i>36,117</i> | <i>923,010</i> | <i>4,114,362</i> | <i>3,049,727</i> |
| Total GFA | 857,421 | 6,004,783 | 25,604,498 | 19,721,778 |

(1) “Land Use Rights Yet to Be Obtained” is included in “GFA Under Planning.”

We believe we enjoy brand and product recognition among regulators (such as those mentioned below), customers and suppliers. Over the past ten years, we have received a multitude of recognition and awards, including the following:

- In 2010, our North Paradise Walk project in Chongqing was named the “Best Landlord” in 2010 (together with CR Land’s Shenzhen Mixc City and Hang Lung Properties’ Shanghai Grand Gateway) by the China Shopping Center Development Association of Mall China (中國購物中心產業資訊中心和中購聯中國購物中心);
- For the years (2003, 2005, 2006 and 2009) in which we were surveyed, we were consistently ranked number one in the “National Residential Customers’ Satisfaction Survey” (全國住宅用戶滿意度調查), a survey conducted by the China Association for Quality (中國質量協會). For instance, in 2006, we scored 92.3 points in user satisfaction and 89.5 points in customer loyalty, out of a total of 100 points, the highest among more than 20 property companies surveyed;
- In 2009, our King Land project in Chengdu was awarded the Gold Prize of the “Zhan Tianyou Prize for Excellent Residential Project Areas 2009” by the China Civil Engineering Society (2009中國土木工程詹天佑獎優秀住宅小區金獎);
- In 2008, our “Longhu” (龍湖) brand name was accredited by the State Administration for Industry and Commerce as a “Well-known Trademark in China” (中國馳名商標);
- In 2007, our Crystal Town project in Chongqing was granted the “China Construction Project Luban Prize” (中國建築工程魯班獎), a prize given in recognition of the highest quality of construction work, by the Ministry of Construction and the Architecture Association of China (中國建築業協會);
- In 2007, we were recognized as one of the “Top 500 in 2006 China Enterprise Information” (2006年度中國企業信息化500強) by the National Information Evaluation Center of the China Electronic Commerce Association (CECA國家信息化測評中心) (one of the only two real estate companies in China winning such recognition); and
- In 2004, our Chunsen Land project in Chongqing won the “Next LA Citation Award” by the American Institute of Architects, Los Angeles in connection with its design.

Aside from our contract sales, we have access to diversified funding channels, thereby enabling us to increase liquidity and optimize our financing capabilities. Within the PRC, we have formed relationships with major domestic banks including Agricultural Bank of China (“ABC”), China Construction Bank (“CCB”) and Industrial and Commercial Bank of China (“ICBC”). As of December 31, 2010, we had total credit facilities of approximately RMB41 billion from CCB, ABC and ICBC, among which approximately RMB29 billion are undrawn. In May 2009, our RMB1.4 billion corporate bond was listed on the Shanghai Stock Exchange, which was the only such issuance approved by the National Development and Reform Commission (“NDRC”) for non-State Owned Enterprise PRC real estate developers. Since then we also have funding sources outside of China. Prior to our initial public offering in Hong Kong in 2009, we obtained a HK\$2.52 billion term loan provided by various banking institutions and affiliates of real estate developers to pay up capital contributions to certain of our subsidiaries and as general working capital of our offshore subsidiaries. We fully repaid this term loan prior to our IPO in 2009. We completed a successful initial public offering in Hong Kong in November 2009 despite difficult market conditions at that time. Listing on the Hong Kong Stock Exchange provided us a ready source of financing through public market fundraising. In April 2010, we obtained a HK\$2.15 billion four-year syndicated loan on an unsecured basis from a number of international and domestic banking institutions in Hong Kong.

Recent Development

On February 1, 2011, through public tender, auction and listing-for-sale, we acquired the land for our Chengdu New High-Tech District West project (成都高新區西部園區項目) in Chengdu. The project is for residential/commercial mixed-use. The total site area is 305,675 sq.m. and the planned total GFA is not more than 1,222,698 sq.m. Our total purchase price was RMB1,014.8 million at an average land cost of RMB830 per sq.m.

On February 25, 2011, through public tender, auction and listing-for-sale, we acquired the land for our Ningbo Beilun District Binghai New City project (寧波市北侖區濱海新城項目) in the city of Ningbo located in the Yangtze River Delta. The total site area is approximately 505,794 sq.m. and the planned total GFA is approximately 626,500 sq.m. Our total purchase price was RMB950.1 million at an average land cost of approximately RMB1,517 per sq.m.

Our Competitive Strengths

We believe that our success and future prospects are supported by a combination of the following competitive strengths:

- We are a national leader in the PRC real estate market with strong presence in the Western Region, the Pan Bohai Rim and the Yangtze River Delta.
- We deliver a wide spectrum of quality products through our proprietary product design bank and quick-turnover execution capabilities.
- We have built a well-known premium brand supported by our quality product offerings and well-regarded property management services, as evidenced by our loyal customer base and superior pricing power.
- We have a well-diversified and quality land bank across China to ensure our healthy growth.
- We have continued to broaden our funding sources and maintained strong liquidity.
- We have an efficient operation enabled by our decentralized decision-making structure, outstanding workforce and robust information technology system.

You should refer to the section entitled “Business — Our Strengths” for further information about these strengths.

Our Business Strategies

Our principal business strategies are:

- Further implement our region-by-region growth strategy.
- Prudently expand our investment property portfolio.
- Maintain our short development cycle to further strengthen our cash flow.
- Further strengthen our well-recognized brand by providing value to our customers through innovative design.
- Continue to align the interest of our management with shareholders and cultivate leadership and entrepreneurship qualities among our senior management team.

You should refer to the section entitled “Business — Our Strategies” for further information about these strategies.

General Information

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law on December 21, 2007. Our registered address is Longfor Properties Co. Ltd., Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

THE OFFERING

Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Notes.”

| | |
|----------------------------|---|
| Issuer..... | Longfor Properties Co. Ltd. (the “Company”) |
| Notes Offered | US\$750 million aggregate principal amount of 9.5% Senior Notes due 2016 (the “Notes”). |
| Offering Price | 100% of the principal amount of the Notes. |
| Maturity Date | April 7, 2016. |
| Interest | The Notes will bear interest at a rate of 9.5% per annum, payable semi-annually in arrears on April 7 and October 7 of each year, commencing October 7, 2011. |
| Ranking of the Notes | <p>The Notes are:</p> <ul style="list-style-type: none">• general obligations of the Company;• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• at least <i>pari passu</i> in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “— The Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees”;• effectively subordinated to the other secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below). |
| Subsidiary Guarantees..... | Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than those Restricted Subsidiaries organized under the laws of the PRC and Long Growth SRL. |

All of the Subsidiary Guarantors are holding companies that do not have significant operations. See “Risk Factors — Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees — Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees.”

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC) to guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor. Notwithstanding the foregoing, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary, *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 20% of the Total Assets of the Company.

A Subsidiary Guarantee may be released or replaced in certain circumstances. See “Description of the Notes — The Subsidiary Guarantees and the JV Subsidiary Guarantees — Release of the Subsidiary Guarantees and JV Subsidiary Guarantees” and “Description of the Notes — The Subsidiary Guarantees and the JV Subsidiary Guarantees — Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees.”

Ranking of Subsidiary
Guarantees.....

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

See “Risk Factors — Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees.”

JV Subsidiary Guarantees.....

A JV Subsidiary Guarantee is required to be delivered by a Subsidiary Guarantor if the Company wishes to release such Subsidiary Guarantor from its Subsidiary Guarantee following a sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% and no more than 49.9% of the issued Capital Stock of the relevant Subsidiary Guarantor. No JV Subsidiary Guarantee exists as of the Original Issue Date. The JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will be limited to the JV Entitlement Amount and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and
- will be limited to the JV Entitlement Amount and will rank at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

The Company may also deliver a JV Subsidiary Guarantee instead of a Subsidiary Guarantee on substantially similar conditions for certain Restricted Subsidiaries that are established after the Original Issue Date.

Use of Proceeds

We intend to use the net proceeds from this offering to finance our existing and new property projects and for general corporate purposes. We may adjust our development plans in response to changing market conditions and therefore reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest the net proceeds in Temporary Cash Investments (as defined under “Description of the Notes — Definitions”).

Optional Redemption of the
Notes.....

At any time and from time to time after April 7, 2014, the Company may at its option redeem the Notes, in whole or in part, at the redemption prices set forth in “Description of the Notes — Optional Redemption” plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time prior to April 7, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to April 7, 2014, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 109.5% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided that* at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Repurchase of Notes Upon a
Change of Control Triggering
Event.....

Upon the occurrence of a Change of Control Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date. See “Description of the Notes — Repurchase of Notes Upon a Change of Control Triggering Event.”

Redemption for Taxation Reason..

Subject to certain exceptions and as more fully described herein, the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor would become obliged to pay certain additional amounts as a result of certain changes in specified tax laws. See “Description of the Notes — Redemption for Taxation Reasons.”

Covenants The Notes, the Indenture governing the Notes and the Subsidiary Guarantees will limit the Company’s ability and the ability of its Restricted Subsidiaries to, among other things:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on its capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries’ ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants are subject to a number of important qualifications and exceptions described in “Description of the Notes — Certain Covenants.”

Transfer Restrictions The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”

Form, Denomination and Registration The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of The Depository Trust Company.

Book-Entry Only The Notes will be issued in book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see “Description of the Notes — Book-Entry; Delivery and Form.”

| | | | |
|--|---|------------------------|--------------------|
| Delivery of the Notes..... | The Company expects to make delivery of the Notes, against payment in same-day funds on or about April 7, 2011, which the Company expects will be the fourth business day following the date of this offering memorandum referred to as “T+4.” You should note that initial trading of the Notes may be affected by the T+4 settlement. See “Plan of Distribution.” | | |
| Trustee..... | Citicorp International Limited | | |
| Principal Paying, Transfer Agent and Registrar | Citibank, N.A., London Branch | | |
| Listing and Trading..... | Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 (or its Dollar Equivalent) for as long as the Notes are listed on the SGX-ST. | | |
| Ratings | The Notes have been provisionally rated “BB” by Standard and Poor’s Ratings Services and “Ba3” by Moody’s Investors Service. We cannot assure investors that these ratings will be confirmed or they will not be adversely revised or withdrawn either before or after delivery of the Notes. | | |
| Governing Law | The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York. | | |
| Risk Factors..... | For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.” | | |
| CUSIP/ISIN | <u>CUSIP</u> | <u>ISIN</u> | <u>Common Code</u> |
| | Rule 144A Global | | |
| | Notes | 54303RAA9 US54303RAA95 | 060919208 |
| | Regulation S | | |
| | Global Notes . . | G5635PAA7 USG5635PAA78 | 060919216 |

SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated income statement data for the years ended December 31, 2008, 2009 and 2010 and the summary consolidated balance sheet data as of December 31, 2008, 2009 and 2010 below have been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. You should read the summary financial data below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included elsewhere in this offering memorandum. Historical results are not necessarily indicative of results that may be achieved in any future period. Our consolidated financial statements have been prepared and presented in accordance with IFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions.

Summary Consolidated Statements of Comprehensive Income

| | For the year ended December 31, | | | |
|--|---------------------------------|------------------|------------------|----------------|
| | 2008 | 2009 | 2010 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (US\$'000) |
| Consolidated statement of comprehensive income: | | | | |
| Revenue | 4,475,199 | 11,373,962 | 15,093,122 | 2,286,837 |
| Cost of sales | (3,321,192) | (8,042,326) | (9,995,934) | (1,514,535) |
| Gross profit | 1,154,007 | 3,331,636 | 5,097,188 | 772,302 |
| Other income | 132,068 | 421,188 | 91,531 | 13,868 |
| Other gain and losses | — | 13,990 | 34,652 | 5,250 |
| Fair value gain upon transfer to investment properties | — | — | 777,023 | 117,731 |
| Change in fair value of investment properties | 125,100 | 920,945 | 1,713,090 | 259,559 |
| Selling and marketing costs | (323,910) | (314,119) | (327,880) | (49,679) |
| Administrative expenses | (408,286) | (421,099) | (433,488) | (65,680) |
| Finance costs | (61,525) | (27,499) | (66,677) | (10,103) |
| Share of results of jointly controlled entities | 63,225 | 135,998 | 183,035 | 27,733 |
| Profit before taxation | 680,679 | 4,061,040 | 7,068,474 | 1,070,981 |
| Income tax expense | (281,198) | (1,568,581) | (2,051,101) | (310,773) |
| Profit for the year and total comprehensive income for the year | <u>399,481</u> | <u>2,492,459</u> | <u>5,017,373</u> | <u>760,208</u> |
| Attributable to: | | | | |
| Owners of the Company | 331,590 | 2,209,207 | 4,130,155 | 625,781 |
| Non-controlling interests | 67,891 | 283,252 | 887,218 | 134,427 |
| | <u>399,481</u> | <u>2,492,459</u> | <u>5,017,373</u> | <u>760,208</u> |
| Earnings per share in RMB cents | | | | |
| Basic | <u>8.3</u> | <u>53.5</u> | <u>80.2</u> | <u>12.2</u> |
| Diluted | <u>N/A</u> | <u>53.2</u> | <u>79.8</u> | <u>12.1</u> |
| Other financial data (unaudited): | | | | |
| EBITDA ⁽¹⁾ | 438,695 | 2,618,281 | 4,359,839 | 660,582 |
| EBITDA margin ⁽²⁾ | 9.8% | 23.0% | 28.9% | 28.9% |

- (1) EBITDA consists of profit for the year before income tax expenses, finance costs, share of results of jointly controlled entities, other gain and loss, other income, depreciation, amortization, net gain or loss upon transfer to investment properties and net gain or loss from fair value of investment properties. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the year or period under IFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See the section entitled "Description of the Notes—Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

Summary Consolidated Statement of Financial Position

| | As of December 31, | | | |
|--|--------------------|-------------------|-------------------|------------------|
| | 2008 | 2009 | 2010 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (US\$'000) |
| Consolidated statement of financial position: | | | | |
| Non-current assets | | | | |
| Investment properties | 3,759,100 | 4,698,300 | 8,041,000 | 1,218,333 |
| Property, plant and equipment | 166,976 | 171,861 | 171,741 | 26,021 |
| Properties under development | 10,701 | — | — | — |
| Prepaid lease payments | 3,026,288 | 3,194,207 | 7,882,002 | 1,194,243 |
| Interests in associates | 1 | 1 | 1 | 1 |
| Interests in jointly controlled entities | 932,468 | 2,373,834 | 2,464,099 | 373,348 |
| Available-for-sale investments | 8,600 | 8,600 | 8,600 | 1,303 |
| Deposits paid for acquisition of land use rights | 845,780 | 3,264,561 | 4,274,216 | 647,608 |
| Deposits paid for acquisition of additional interest in a subsidiary | — | 34,000 | — | — |
| Deferred taxation assets | 347,960 | 227,702 | 436,035 | 66,066 |
| Amount due from a minority shareholder | 12,490 | — | — | — |
| | <u>9,110,364</u> | <u>13,973,066</u> | <u>23,277,694</u> | <u>3,526,923</u> |
| Current assets | | | | |
| Inventories | 138,652 | 301,048 | 415,939 | 63,021 |
| Properties under development for sales | 14,880,070 | 18,312,478 | 31,590,625 | 4,786,458 |
| Properties held for sales | 2,582,592 | 1,008,296 | 3,004,066 | 455,162 |
| Accounts and other receivables, deposits and prepayments | 1,611,597 | 1,382,897 | 2,516,293 | 381,257 |
| Amounts due from jointly controlled entities | 107,094 | 35,271 | 7,362 | 1,115 |
| Taxation recoverable | 131,722 | 134,265 | 539,034 | 81,672 |
| Pledged bank deposits | 605,379 | 496,208 | 499,419 | 75,670 |
| Bank balances and cash | 3,228,797 | 6,801,573 | 9,863,132 | 1,494,414 |
| | <u>23,285,903</u> | <u>28,472,036</u> | <u>48,435,870</u> | <u>7,338,769</u> |

| | As of December 31, | | | |
|---|--------------------|-------------------|-------------------|------------------|
| | 2008 | 2009 | 2010 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (US\$'000) |
| Current liabilities | | | | |
| Accounts payable, deposits received and accrued charges | 13,843,721 | 16,362,320 | 31,474,867 | 4,768,919 |
| Amounts due to jointly controlled entities | 19,957 | 363,879 | 1,319,490 | 199,923 |
| Amounts due to directors | 81,590 | — | — | — |
| Taxation payable | 935,528 | 1,616,029 | 2,635,182 | 399,270 |
| Bank and other borrowings — due within one year | 6,480,051 | 3,710,200 | 2,859,870 | 433,314 |
| | <u>21,360,847</u> | <u>22,052,428</u> | <u>38,289,409</u> | <u>5,801,426</u> |
| Net current assets | 1,925,056 | 6,419,608 | 10,146,461 | 1,537,343 |
| Total assets less current liabilities | <u>11,035,420</u> | <u>20,392,674</u> | <u>33,424,155</u> | <u>5,064,266</u> |
| Capital and reserves | | | | |
| Share capital | 351,668 | 452,972 | 453,410 | 68,698 |
| Reserves | 2,770,893 | 11,685,706 | 15,526,846 | 2,352,553 |
| Equity attributable to owners of the Company | 3,122,561 | 12,138,678 | 15,980,256 | 2,421,251 |
| Non-controlling interests | 821,673 | 1,099,884 | 1,385,564 | 209,934 |
| Total equity | 3,944,234 | 13,238,562 | 17,365,820 | 2,631,185 |
| Non-current liabilities | | | | |
| Bank and other borrowings — due after one year | 6,359,700 | 6,055,305 | 14,464,489 | 2,191,589 |
| Deferred taxation liabilities | 731,486 | 1,098,807 | 1,593,846 | 241,492 |
| | <u>7,091,186</u> | <u>7,154,112</u> | <u>16,058,335</u> | <u>2,433,081</u> |
| | <u>11,035,420</u> | <u>20,392,674</u> | <u>33,424,155</u> | <u>5,064,266</u> |

RISK FACTORS

RISKS RELATING TO OUR BUSINESS

We are heavily dependent on the performance of the PRC property market. Any market downturn or implementation of government regulations or control measures affecting medium- to high-end properties in the PRC may have an adverse impact on us.

Although we have been pursuing and will continue to pursue opportunities in different regions of the PRC, as of December 31, 2010, our projects were primarily located in 13 cities, namely Chongqing, Chengdu, Xi'an, Beijing, Shenyang, Qingdao, Shanghai, Wuxi, Changzhou, Hangzhou, Dalian, Yantai and Yuxi. As such, our business is heavily affected by the performance of the PRC property market, particularly that of the cities where we operate. Since last year, the PRC government resumed measures to control inflation and slow the price increases in the property market, as the economy and the real estate market recovered. Any government measures aiming to regulate the pace of economic growth in China may affect the real estate markets where we operate.

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

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

At present, we derive our revenue primarily from the sale of properties that we have developed and derive a relatively small portion from income on investment properties including rental income and property management fees. We generated 94.2%, 97.0% and 96.7% of our revenue for the financial years ended December 31, 2008, 2009 and 2010, respectively, from the sale of properties. Our future revenue is difficult to predict and may be volatile due to the nature of our business.

Our results of operations may fluctuate due to factors such as the schedule of development of our property projects, the timing of the sale of properties that we have developed, the level of acceptance of our properties by prospective customers and any fluctuation in expenses such as land costs and construction costs. Any delay in obtaining or failure to obtain the relevant PRC governmental approvals or permits for any of our development projects may delay the completion of such property development, which may materially and adversely affect our results of operations. See "Risk Factors — Risks Relating to Our Business — Our business, results of operations and financial condition may be materially and adversely affected if we fail to obtain, or there is any material delay in obtaining, any of the relevant PRC governmental approvals for our development projects."

Furthermore, we recognize revenue from sales of property only upon the completion and delivery of the property to the buyer, which is when we believe the significant risks and rewards of ownership are transferred to the buyer. For further details, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Revenue Recognition.” Since the completion and delivery of our properties vary according to our development timetable, our revenue and results of operations may vary significantly from period to period. Furthermore, the completion and delivery of any project development may be materially and adversely affected by a combination of factors, including adverse weather conditions, delays in obtaining requisite permits and approvals from relevant government authorities, as well as other factors beyond our control. Any of these factors may affect the timing of completion and delivery of our projects, as well as our cash flow position and recognition of revenue from our projects, thus materially and adversely affecting our business, results of operations and financial condition and rendering us unable to fulfill the payment obligations under the terms of the Notes.

Due to capital requirements for acquiring land and project construction and due to limited supply of land and the time required for completing a project, we can only undertake a limited number of property development projects at any one time. Any delay in the schedule of completion of our property development may materially and adversely affect our business, results of operations and financial condition.

Our financial results for each of the three financial years ended December 31, 2008, 2009 and 2010 included the changes in fair value of investment properties and our results may fluctuate due to such changes

We reassess the fair value of our investment properties at every reported statement of financial position date based on the market value for which the property could be exchanged between knowledgeable and willing parties in an arm’s-length transaction. For the financial years ended December 31, 2008, 2009 and 2010, we had revaluation surplus on our investment properties representing 31.3%, 36.9% and 34.1%, respectively, of the net profit of the Company for the respective period. During the three years ended December 31, 2010, we have recorded a change in fair value of investment properties that amounted to approximately RMB125.1 million, RMB920.9 million and RMB1,713.1 million, respectively, in our consolidated statements of comprehensive income. According to the International Accounting Standard for investment properties issued by the IASB or IAS 40, investment properties may be recognized by using either the fair value model or the cost model. We have selected the fair value model to report the value of investment properties because we take the view that periodic fair value adjustments in accordance with the then prevailing market conditions, irrespective of whether such market trend moves upwards or downwards, should be recorded so that our financial statements present a more updated picture of the fair value of our investment properties. However, an upward change in the fair value only reflects unrealized capital gain of such investment properties at the relevant statement of financial position dates and not profit generated from day to day rentals of our investment properties, which in turn are largely dependent on the prevailing property markets. Property values are subject to market fluctuation and there can be no assurance that we will continue to record gains in the fair value of investment properties in the future. Should there be any material downward change in the fair value of our investment properties in the future, our business, results of operations and financial condition may be materially and adversely affected.

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

A substantial portion of our revenue during the three years ended December 31, 2010 was derived principally from the sale of properties in Chongqing, Chengdu, Xi’an, Beijing, Shenyang, Qingdao, Shanghai, Wuxi, Changzhou and Hangzhou. We expanded into the markets of Chengdu

and Beijing in 2005, Shanghai and Xi'an in 2007, Wuxi, Shenyang, Changzhou, Hangzhou and Qingdao in 2009 and Dalian, Yantai and Yuxi in 2010. Our business is expanding and we continue to seek development opportunities in selected regions in the PRC where we see a potential for growth. However, our experience as primarily a residential property developer in our established regions may not be applicable in other regions. When we enter new markets, we may face intense competition from local developers with experience or an established presence in those markets, and from other developers with similar expansion plans. In addition, expansion or acquisition requires a significant amount of capital investment and human resources, and may divert the resources and time of our management. We may not be able to hire or train sufficient talent to manage our operations in new markets. Our ability to manage and integrate new projects and businesses may affect our operating efficiency. The possible failure of our expansion plans may materially and adversely affect our business, results of operations and financial condition.

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

Our revenue is dependent upon our ability to identify and acquire suitable sites at appropriate prices and our ability to sell our projects. Our revenue is mainly derived from the sale of properties that we have developed. For the financial years ended December 31, 2008, 2009 and 2010, 94.2%, 97.0% and 96.7% of our revenue was generated from the sale of properties, respectively. We need to build up our land reserve in order to grow our business and we may incur significant costs in identifying, evaluating and acquiring suitable new sites for future development. Our future growth prospects and results of operation may be materially and adversely affected should we fail to identify and acquire sufficient and appropriate new sites for development at commercially acceptable prices.

The PRC government's policies on land supply may affect our land acquisition costs and our ability to acquire land use rights for future developments. The PRC government controls land supply and regulates the ways in which property developers obtain land for property development. In July 2002, regulations were introduced to require land use rights for residential and commercial property developments be granted by public tender, auction or listing-for-sale effective from July 1, 2002. In addition, the PRC government may limit the supply of land available for commodity housing development in the PRC generally or in cities in which we conduct or intend to conduct business. For example, on May 30, 2006, the Ministry of Land and Resources announced that the overall land supply for low density, large sized housing would be restricted and, in particular, the supply of new land for villa projects would be discontinued. When supplying residential land, the minimum plot ratios, the number of residential units on unit land area and the model of residential constructions shall be indicated in the land use right grant contracts or land transfer certificates, so as to ensure that no less than 70% of the residential land shall be used for the construction of low-rent housing, economic housing, restricted-price housing and medium and small ordinary commodity housing of under 90 sq.m. Financial institutions should be cautious in extending loans and approving financings for enterprises, the real estate projects of which have exceeded one full year from the construction commencement dates as agreed in the land use right grant contracts, and which have completed development of less than one-third of the total land area to be developed or which have invested less than one quarter of any given building's total investment directly in the construction of the building, and should also strictly control loan extensions and rolling credit. On January 26, 2011, the State Council issued the notice to further strengthen the principle that no less than 70% of the residential land shall be used for the construction of low-rent housing, economic housing, restricted-price housing and medium and small ordinary commodity housing. The notice also imposed more stringent fines on the idle land. Such measures and any other similar measures in the future may limit our ability to develop a wide variety of products in our future property developments. Changes in government policy which reduce land supply for our future projects and failure in tendering for land may materially and adversely affect our business, results of operations and financial conditions.

Our business is capital intensive and our business nature may expose us to unstable and unpredictable cash flow. We may not be able to obtain sufficient funding for our business expansion.

Our business requires substantial capital outlay during construction and it is not unusual for a property developer to generate negative operating cash flow over a period when the cash outflows for land acquisition and construction, after offsetting changes in other working capital items, exceed the cash inflows from property sales over the same period.

We experienced negative operating cash flow during the financial year ended December 31, 2008 due to the impact of the financial crisis. This negative cash flow was funded by our internal resources and external financing means. For the two financial years ended December 31, 2009 and December 31, 2010, we generated positive operating cash flows of RMB5,845.8 million and RMB8,477.8 million, respectively, as some of the Company's investments began to bear fruit and our contract sales increased. We cannot assure you that we will not experience negative cash flow in the future or that external financing means will be available to fund any such negative operating cash flow.

We require significant funding to acquire land and develop property. Our property development projects are generally funded through, shareholders' contributions, internally generated funds from pre-sale of properties, bank loans and other funds we raise from capital markets. Our PRC subsidiary, Chongqing Longhu Development, raised gross proceeds of RMB1.4 billion in May 2009 by issuing the RMB Bonds, to fund our development projects in Chongqing and Chengdu. As of December 31, 2010, our aggregate borrowings were RMB17.3 billion. For further information on our indebtedness, see "Description of Other Material Indebtedness." We expect to continue to fund our projects through such sources. We cannot assure you that additional financing can, in the future, be obtained on satisfactory or commercially acceptable terms, or at all. A number of factors such as general economic conditions, our financial strength and performance, credit availability from financial institutions and monetary policies in the PRC may affect our ability to obtain adequate financing for our projects on favorable terms and to achieve a reasonable return on such projects.

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

From January 2010 to January 2011, as the PRC economy recovered, the PBOC steadily raised the reserve requirement ratio to 19% for the Industry and Commerce Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, China Merchants Bank and China Minsheng Banking Corp. Ltd. and to 18.5% for other commercial banks. On February 24, 2011, PBOC raised the reserve requirement ratio by 0.5% and further raised 0.5% on March 18, 2011. If the PRC government perceives the PRC economy to be overheated and adopts measures to cool down the economy by limiting the amount that commercial banks can make available for lending, our ability to obtain financing from commercial banks may be materially and adversely affected.

We may not be able to refinance our indebtedness as it matures.

We maintain significant indebtedness to finance our property development activities. As of December 31, 2010, our total consolidated indebtedness, representing our current and non-current bank and other loans, was RMB17,324.4 million (US\$2,624.9 million), of which RMB2,859.9 million (US\$433.3 million) would be due within one year. We cannot assure you that we will be able to refinance our indebtedness as it matures, in which case we will need to repay our debt with cash generated from operating activities or some other sources. We cannot assure you that our business will generate sufficient cash flow from operations to repay our borrowings as they mature. Repaying borrowings with cash generated by operating activities will divert our financial resources from land acquisitions and development activities. Our Company and certain of our subsidiaries have entered into loan agreements with various banks in the PRC or Hong Kong pursuant to which they have pledged shares, land use rights, buildings and other assets as security. Our financing cost may be adversely affected by interest rate fluctuation in the PRC or other places. We may lose part or all of this collateral if we cannot repay or refinance such borrowings as they mature, which could materially and adversely affect our business prospects, financial condition and results of operations.

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

Many of our customers rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unattractive or unavailable to potential property purchasers.

Since the second half of 2009, PBOC took a series of measures to prevent the economy from overheating. On October 20, 2010, the PBOC raised both its benchmark lending and deposit interest rates to 5.56% for one-year Renminbi loans and 2.50% for one-year deposits. On December 26, 2010, the PBOC raised both its benchmark lending and deposit interest rates to 5.81% for one-year Renminbi loans and 2.75% for one-year deposits. On February 9, 2011, the PBOC raised both its benchmark lending and deposit interest rates to 6.06% for one-year Renminbi loans and 3.00% for one-year deposits. Any increase in interest rates will decrease the affordability and attractiveness of mortgage financing to our customers, which may in turn affect demand for our properties.

From time to time, the PRC government issues laws, regulations or government policies regarding mortgage financing to regulate the PRC property market. In April 2010, the State Council issued a notice to raise the minimum down payment for second home purchases to 50% and set a minimum 30% down payment on first homes with a GFA of more than 90 sq.m. Further, pursuant to such notice, the interest rate for mortgage loans of second homes cannot be lower than 110% of the PBOC benchmark lending rate. In May 2010, the Ministry of Housing and Urban-Rural Development (the "MOHURD," previously the Ministry of Construction), PBOC and the CBRC jointly issued a circular to clarify that the number of residential properties owned by an individual property purchaser who is applying for mortgage loans shall be determined by taking into account all residential properties owned by the family members of such purchaser (including the purchaser and such purchaser's spouse and children under the age of 18), and that property purchasers of second or subsequent residential properties shall be subject to different credit terms when applying for mortgage loans. According to a notice jointly issued by the PBOC and CBRC on September 29, 2010, the minimum down payment has been raised to 30% for all first home

purchases, and commercial banks are required to suspend mortgage loans for purchases of a customer's third or subsequent residential properties. See "Regulation — Transfer of Real Estate — Financing property development and acquisition." On January 26, 2011, General Office of the State Council issued Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market. According to this Notice, for those households who purchase the second housing using a mortgage, the down payment ratio shall not be lower than 60% and the loan interest shall not be lower than 1.1 times of the benchmark interest rate. The respective branches of PBOC may raise the down payment ratio and interest rate on loans for second home purchase based on the price control targets set by the local governments for newly constructed houses and the policy requirements, and on the basis of national unified credit policies.

In addition, banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 50% of the individual borrower's monthly income or if the total debt service of the individual borrower would exceed 55% of such individual's monthly income. In the event that mortgages become more difficult to obtain or that the costs of such financing increases, many of our prospective customers who rely on mortgages may not be able to purchase our properties.

In line with industry practice, we provide guarantees to banks for mortgage loans they offer to purchasers of our properties. If there are changes in laws, regulations, policies or practices that would prohibit property developers from providing such guarantees and these banks do not accept alternative guarantees from third parties, if available, property purchasers may not be able to obtain mortgages from banks, which may inhibit pre-sales of our projects, which could materially and adversely affect our business prospects, results of operations and financial condition.

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

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

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

We rely on credit checks conducted by the mortgagee banks on our customers and do not conduct our own credit checks. We have in the past experienced a limited number of defaults by our customers of their mortgage loans, although, as of January 31, 2011, we are not aware of any default by our customers which have resulted in any bank foreclosure of any mortgaged properties. For the financial years ended December 31, 2008, 2009 and 2010, our outstanding guarantees over the mortgage loans of our customers amounted to approximately RMB2,204.7 million, RMB2,686.8 million, and RMB5,204.9 million, respectively. As of December 31, 2008, 2009 and 2010, default amounts in relation to the mortgage loans taken out by our customers and secured by our guarantees were not significant. We cannot assure you that the purchaser default rate will not

increase in the future. If a significant amount of our guarantees are called upon at the same time or in close succession, our business, results of operations and financial condition may be materially and adversely affected to the extent that there is a material depreciation in the value of the relevant properties from the price paid by the customers or that we cannot sell such properties due to unfavorable market conditions or other reasons.

We rely on external contractors for the construction of our property development projects. Our business, results of operations and financial condition may be materially and adversely affected by the breach of their contractual obligations.

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

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

Our properties developed for sale are subject to LAT collectible by the local tax authorities. Under PRC tax laws and regulations, all income derived from the sale or transfer of land use rights, buildings and their ancillary facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value. LAT is calculated based on proceeds received from the sale of properties less deductible expenditures as provided in the relevant tax laws. According to the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例), sales of ordinary residential properties (that is, residential properties built in accordance with the local standard for general civilian residential properties, excluding buildings such as deluxe apartments, villas and resorts which are not under the category of ordinary standard residential properties) may be exempted from LAT where the appreciation of land value does not exceed 20% of the total deductible items including acquisition cost of land use rights, development cost of land and construction cost of new buildings and facilities or assessed value for used properties and buildings as provided in the relevant tax laws. Pursuant to the Detailed Rules for the Implementation of Provisional Regulations of the People's Republic of China on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例實施細則) for property developers, an additional 20% of deductible expenses including the sum paid for acquiring land use rights and costs for developing land and constructing new buildings and facilities may be deducted in calculating land appreciation amount. In May 2010, the State Administration of Taxation issued the Notice on Strengthening the Collection of Land Appreciation Tax, which requires that the minimum LAT prepayment rate shall be 2% for provinces in the eastern region of China, 1.5% for provinces in the central and northeastern regions, and 1% for provinces in the western region. According to the notice, the local tax bureaus shall determine the applicable LAT prepayment rates based on the property type.

Property developers are normally required to file tax returns with the relevant authorities within seven days from the date the property sale or transfer contract is signed, and the LAT is payable within the period specified by the local tax authorities. However, with the approval of the relevant tax authorities, real estate enterprises may file tax returns for LAT on a regular basis if they have a consistently high volume of transactions which makes it impracticable to file a tax return for each sale or transfer. We have been approved by the relevant tax authorities to file tax returns for LAT on a monthly basis and to settle our LAT liabilities for each month prior to the tenth day of the immediately following month.

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

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

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

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

On March 16, 2007, the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) ("EIT Law") was issued and on December 6, 2007, the Rules on the Implementation of Enterprise Income Tax Law of the PRC ("Rules on the Implementation") were issued, both of which became effective on January 1, 2008. Under the EIT Law and the Rules on the Implementation, enterprises established under the laws of or within the territory of the PRC, or established under the laws of a foreign country (region), but whose "de facto management body" is located in the PRC are treated as resident enterprises for PRC tax purposes. It is currently unclear in which situations a non-PRC enterprise's "de facto management body" is located in the PRC. Substantially all of our

management is currently based in the PRC. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which may, unless otherwise provided in the EIT Law, include any dividend income we receive from our subsidiaries. Although the EIT Law provides that dividend income between qualified resident enterprises is exempted income, it is not clear what is considered as a qualified resident enterprise under the EIT Law. If we are required under the EIT Law to pay PRC income tax with respect to any dividends we receive from our subsidiaries, it could materially and adversely affect our financial condition. As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends from subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be.

Furthermore, the Notice of the State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of “de facto management body” (Guo shuifa No.82 [2009]) (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) effective since January 1, 2008 has only clarified the conditions under which a foreign company whose majority shareholder is a Chinese enterprise or a group of Chinese enterprises would be considered as a PRC tax resident enterprise that has its “de facto management body” located in the PRC. However, the relevant PRC tax rules have not clarified whether and under what conditions a foreign company whose majority shareholders are PRC individuals may also be considered as a PRC tax resident enterprise having its “de facto management body” located in the PRC, and currently, it is uncertain whether the PRC local tax authority will make such determination. As of the date hereof, the PRC local tax authorities have not certified our Company as a PRC tax resident enterprise. However, we cannot assure you that our Company will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in which case the tax consequences described above may apply.

We may be deemed a PRC resident enterprise under the EIT Law, in which case we would be subject to PRC taxation on our worldwide income and may be obligated to withhold PRC income tax on payment of interest on the Notes, and gain from the transfer of Notes may be subject to PRC tax.

Under the EIT Law enacted by the National People’s Congress in March 2007, enterprises established under the laws of foreign countries or regions whose “de facto management bodies” are located within the PRC are considered “resident enterprises” for PRC tax purposes and will generally be subject to the enterprise income tax at the rate of 25% on their global income. The implementation rules of the EIT Law define the term “de facto management body” as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. The SAT promulgated the Circular on Identifying Chinese-Controlled Offshore Enterprises as Chinese Resident Enterprises in Accordance with Criteria for Determining Place of Effective Management (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) in April 2009 and enforced on January 1, 2008, which specifies certain criteria for the determination of the “de facto management bodies” for foreign enterprises that are controlled by PRC enterprises or PRC enterprise groups. However, there have been no official implementation rules regarding the determination of the “de facto management bodies” for enterprises established offshore by private individuals or foreign enterprises like us. Substantially all of our management is currently located in the PRC. If we are treated as a PRC resident enterprise for income tax purposes, we will be subject to income tax at the rate of 25% on our global income. Furthermore, we may be obligated to withhold PRC income tax at a rate of 10% from payments of interest on the Notes to investors that are non-resident enterprises located outside Hong Kong, because the interest and other amounts may be regarded as being derived from sources within the PRC. If we fail to make proper withholdings, we may be subject to fines and other penalties. In addition, any gain realized by such non-resident enterprise investor from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly may be subject to a 10% PRC income tax.

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

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

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

We have entered into letters of intent and framework agreements with local governments in the PRC in respect of the development of parcels of land. Pursuant to such letters of intent and framework agreements, we and the relevant local governments agreed to cooperate in the development of the relevant parcels of land whereby the local governments will attend to the preparatory work for the tender, auction or listing for sale of the lands, and we will participate in such tender, auction or listing for sale process and, if we succeed in our bid and acquire the land, develop the land. In spite of such letters of intent and framework agreements, we expect to go through the public tender, auction or listing-for-bidding process, and if we succeed in our bid, enter into a land grant contract and pay the relevant land premium as required by the relevant laws and regulations in order to obtain the title to the land.

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

We are subject to rising costs for labor and materials, which we may not be able to pass on to construction contractors or to purchasers.

Construction and development costs account for the majority of our cost of sales and are one of the significant factors affecting our financial condition and results of operations. As a result of economic growth and the boom in the property industry in the PRC, wages for construction workers and the prices of construction materials and building equipment have substantially increased in recent years. Under the terms of most of our construction contracts, contractors may adjust the contract prices upwards by 10% to cover increases in wages and costs of construction materials. In addition, in negotiations that follow upward materials cost fluctuations post-contract, we often agree to bear a greater share of the materials costs than is contractually required. We do so in order to maintain good relations with our contractors, which allows us to repeatedly source good quality and service. We are also exposed to the price volatility of labor and construction materials to the extent that we periodically enter into new or renew existing construction contracts at different terms during the life of a project, which may span several years, or if we choose to hire the construction workers directly or purchase construction materials directly from suppliers. Furthermore, we are unable to pass increased costs on to pre-sale purchasers when construction costs increase subsequent to the date of the pre-sale contract. If we are unable to pass on any increase in the cost of labor, construction materials or building equipment to either our construction contractors or to the purchasers of our properties, our business prospects, results of operations and financial condition may be materially and adversely affected.

We may be required to forfeit land if we fail to comply with the terms of land grant contracts.

Under PRC law, if we fail to develop a property project according to the terms of the land grant contract, including those relating to the payment of land premium, the designated use of the land and the schedule for commencing and completing the development, the relevant government authorities may issue a warning, impose a penalty and/or liquidated damages, or require us to forfeit the land. Any violation of the land grant contract may also restrict or prevent us from participating in future land bidding.

Under current PRC law, if we fail to commence the development of a parcel of land for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice on us and impose an idle land fee of up to 20% of the land premium. If we fail to commence development for more than two years from the relevant commencement date stipulated in the land grant contract, the land will be subject to forfeiture to the PRC government. Moreover, even if the commencement of the property development satisfies the stated requirements of the land grant contract, if the developed GFA is less than one-third of the total planned GFA of the project or the total capital invested is less than one-fourth of the total planned investment the project, and development of the land is suspended continuously for more than one year without government approval, the land will still be treated as idle land. In the Notice on Promoting the Saving and Intensification of Use of Land (國務院關於促進節約集約用地的通知) promulgated by the State Council in January 2008, the aforesaid policy was reinforced. This notice states, among other things, that the MLR and other authorities are required to conduct research on and commence drafting of implementation rules concerning the levy of land appreciation fees on idle land. Furthermore, the MLR issued a Notice on Restricting the Administration of Construction Land and Promoting the Use of Approved Land (關於嚴格建設用地管理促進批而未用土地利用的通知) in August 2009, which reiterates the current rules regarding idle land. In September 2010, the MLR and MOHURD jointly issued the Notice On Further Strengthening the Administration and Control of Real Estate Land and Construction (關於進一步加強房地產用地和建設管理調控的通知), which provides that a property developer and its shareholders will be prohibited from participating in land bidding before any illegal behaviors in which it engages, such as (1) land idle for more than one year on its own reasons; (2) illegal transfer of land use rights; (3) non-compliance with the land development requirements specified in a land grant contract; and (4) crimes such as taking land by forging official documents and illegal land speculation have been completely rectified. We cannot assure you that circumstances leading to imposition of penalty, liquidated damages or forfeiture of our land will not arise in the future. If we are deemed as holding land idle for more than one year without cause or are required to forfeit land, we may lose the opportunity to develop the relevant land, our investments in the land, including land premiums paid and development costs incurred, and our ability to bid for other land in the future, any of which could materially and adversely affect our business prospects, results of operations and financial condition.

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

In developing and completing a property development, we are required to obtain various permits, licenses, certificates and other approvals including, but not limited to, the State-owned Land Use Rights Certificates (國有土地使用證), Planning Permit for Construction Land (建設用地規劃許可證), Planning Permit for Construction Works (建設工程規劃許可證), Permit for Commencement of Construction Works (建築工程施工許可證), Pre-sale Permit for Commodity Housing (商品房預售許可證) and certificates or confirmation of completion and acceptance from the relevant administrative authorities at various stages of the development of the property project. In particular, we are required to obtain state-owned Land Use Rights Certificates before commencing any property development and such certificates would generally only be issued after certain conditions have been satisfied. Such conditions include the relevant project company

having executed the state-owned Land Use Right Granting Contracts (國有土地使用權出讓合同) with the relevant authorities whereby the land use right is obtained by grant, provided we have paid the land grant premium in full and relocated the local residents from the site area if so required.

As of December 31, 2010, we have signed land use rights grant or transfer documents in respect of a total gross floor area of approximately 19,721,778 sq.m. for future development purposes but have not obtained the relevant state-owned Land Use Rights Certificates. We cannot assure you that we will obtain all necessary certificates and permits for our projects in a timely manner, or at all, and we cannot assure you that we will not encounter problems in fulfilling all or any of the conditions imposed for the grant of the necessary certificates or permits, or that we will be able to expeditiously adapt to new laws, regulations or policies that may come into effect from time to time with respect to the granting of such items. There may also be significant delays in the granting of such items to us by the relevant PRC administrative bodies. If we fail to obtain, or are considered by relevant governmental authorities to have failed to obtain, or experience significant delays in obtaining, the requisite governmental approvals, penalties could be levied on us and our schedule of property development could be substantially disrupted. This could materially and adversely affect our business, results of operations and financial condition.

We may not be able to successfully manage our growth.

We have been continuously expanding our operations in recent years. As we continue to grow, we must continue to improve our managerial, technical and operational knowledge and allocation of resources, and to implement an effective management information system. To effectively manage our expanded operations, we need to continue to recruit and train managerial, accounting, internal audit, engineering, technical, sales and other staff to satisfy our development requirements. In order to fund our ongoing operations and our future growth, we need to have sufficient internal sources of liquidity or access to external financing sources. Furthermore, we will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. We will need to further strengthen our internal control and compliance functions to ensure that we are able to comply with our legal and contractual obligations and reduce our operational and compliance risks. We cannot assure you that we will not experience issues such as capital constraints, construction delays, operational difficulties at new locations, or difficulties in expanding our existing business and operations and in training an increasing number of personnel to manage and operate the expanded business. Our expansion plans may also adversely affect our existing operations and thereby have a material adverse effect on our business prospects, results of operations and financial condition.

We may be subject to legal and business risks if we fail to obtain, renew or maintain qualification certificates.

Property developers must obtain a qualification certificate in order to carry out property development in the PRC. According to the Provisions on Administration of Qualification of Real Estate Developers (房地產開發企業資質管理規定) (the “Provisions on Administration of Qualifications”), newly established property developers must first apply for a provisional qualification certificate, which is valid for one year and can be renewed for a maximum of two additional years. A property developer is required to obtain a formal qualification certificate with an approved class before its provisional qualification certificate expires. Formal qualification certificates are subject to renewal on an annual basis. Government regulations require developers to fulfill all statutory requirements before obtaining or renewing their qualification certificates. See “Regulation.” In addition, before commencing their business operations, entities engaged in property service are required to obtain qualification certificates in accordance with the Measures for Administration of Qualifications of Property Service Enterprises (物業服務企業資質管理辦法).

Each of our project companies is responsible for the annual submission of its renewal application and shall engage in property developments within its qualification certificate class. If

any of our project companies is unable to meet the relevant qualification requirements, it will generally be given a grace period to rectify any non-compliance and may be subject to a penalty of between RMB50,000 and RMB100,000. Failure to ratify the non-compliance within the grace period could result in the revocation of the qualification certificate and the business license of the relevant project company. We cannot assure you that we will be able to renew our provisional qualification certificates, or obtain or renew our formal qualification certificates in a timely manner, or at all. If any of our project companies fails to do so, our business prospects, results of operations and financial condition may be materially and adversely affected.

We are subject to potential environmental liabilities.

We are subject to a variety of laws and regulations concerning the protection of the environment. The particular PRC environmental laws and regulations which apply to any given project development site vary according to the location, the environmental condition, the present and former uses of the site, as well as adjacent properties.

The relevant property development project may be delayed due to our efforts to comply with environmental laws and regulations. In some environmentally-sensitive regions or areas, the compliance costs could be prohibitively expensive.

In addition, each property development project is required by the relevant PRC laws and regulations to undergo environmental assessments and to submit an environmental impact assessment report to the relevant government authorities for approval before commencement of construction. Failure to obtain such approval prior to construction may result in suspension of construction and a penalty amounting to RMB50,000 to RMB200,000 for each project. Furthermore, it is possible that these assessments did not reveal all environmental liabilities and there may be environmental liabilities of which we are unaware that may have a material adverse effect on our business and financial condition. In addition, if more stringent regulations are adopted in the future, we cannot assure you that we will be able to fully comply with such regulations and the costs of compliance with these new regulations may be substantial. If any of these occur, our business prospects, results of operations and financial condition may be materially and adversely affected.

The total GFA of our projects under development or future property developments may exceed the original GFA authorized in the land grant contract and we may need to obtain additional government approvals and be subject to additional payments.

When the PRC government grants the land use rights for a piece of land, it will specify in the land use rights grant contract the designated use of the land and the total GFA that the developer may develop on the land. The actual GFA constructed, however, might have exceeded the total GFA authorized in the land use rights grant contract due to various factors such as subsequent planning and design adjustments. The amount of GFA in excess of the authorized amount is subject to approval when the relevant authorities inspect the properties after their completion and the developer may be required to pay additional land premium in respect of such excess GFA. In addition, if we fail to obtain the completion certificate due to such excess GFA, we will not be allowed to deliver the relevant properties to the purchasers or recognize the revenue from the relevant pre-sold properties and may also be subject to liabilities under the pre-sale contracts. If this occurs, our business prospects, results of operations and financial condition may be materially and adversely affected.

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

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

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

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

Third party infringement of our intellectual property rights or an adverse finding of our infringing upon others' intellectual property rights may damage our reputation and materially and adversely affect our business, results of operations and financial condition.

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

Should we fail to renew the registration of any of the trademarks upon renewal date or should we be held by any court or tribunal to be infringing or have infringed any trademark or intellectual property rights of others or should our brand image suffer any deterioration or damages, our business, results of operations and our general reputation may be materially and adversely affected. An adverse ruling in any such litigation or proceedings could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or subject us to injunctions prohibiting the use of such trademarks.

The discovery of cultural relics at a construction site could result in the delay or abandonment of a property development project.

A number of locations where we conduct our real estate development were ancient political, economic and cultural centers of China and home to a large quantity of valuable cultural relics and historic sites. Pursuant to the Cultural Relics Protection Law of the PRC (中華人民共和國文物保護法), if any cultural relics are discovered beneath our development sites during our construction process, such discovery must be immediately reported to the local department of cultural relics administration, and construction must be immediately suspended or partly suspended for archaeological surveying. If an underground discovery is classified as “highly valuable” by archaeologists and a parcel of land is considered to be of public interest because of its historical or archaeological significance, the parcel of land has to be returned to the government and the entire project must be relocated. Although the government is required to compensate a property developer for a parcel of land returned to it for archaeological purposes, there is no assurance that such compensation will be sufficient to cover the full amount of the land premium paid or any other expenses incurred by the developer in connection with the relevant site. If any historic relics are discovered under any of our construction sites in the future, the completion of our projects may be delayed or we may even be required to return the relevant parcels of land to the government, which may materially and adversely affect our business prospects, results of operations and financial condition.

We depend on our management team for our continuous development.

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

The interests of our Controlling Shareholders may not align with our interests or those of the holders of the Notes.

Our founders, Madam Wu and Mr. Cai, have transferred their respective controlling shareholding interests in us to Charm Talent and Precious Full, respectively, in contemplation of the establishment of the Wu Family Trust and the Cai Family Trust, being discretionary trusts, the beneficiaries of which include family members of, respectively, Madam Wu and Mr. Cai. The Wu Family Trust and the Cai Family Trust were duly set up on June 11, 2008. Thereupon, Charm Talent and Precious Full became our Controlling Shareholders which are in turn indirectly controlled by HSBC International Trustee as trustee of the said two trusts. As of December 31, 2010, Charm Talent and Precious Full, in aggregate, held approximately a 75.8% interest in our issued share capital. Accordingly, they will be able to exert significant control and influence over our business and on matters of significance to us and the holders of the Notes.

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

We cannot assure you that our Controlling Shareholders and HSBC International Trustee will act entirely in our interests or that conflicts of interest will be resolved in our favor. The interests of our Controlling Shareholders may differ from our interests or those of our creditors, including the holders of the Notes, and our Controlling Shareholders are free to vote according to their interests.

Disputes with our joint venture partners may materially and adversely affect our business, results of operations and financial condition.

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

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

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

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

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

Certain leased properties occupied by us may have defective titles.

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

Our properties may be subject to natural disaster risks.

Our properties may be subject to natural disaster risks, including flood, hurricane, earthquake or other acts of God. For example, the Sichuan Earthquake, which measured 8.0 on the Richter scale, occurred in China’s Sichuan province on May 12, 2008. The epicenter of the Sichuan Earthquake was Wenchuan county, which is approximately 150 km from Chengdu. Although the Sichuan Earthquake did not have any material adverse impact on our development projects or our overall operations and financial conditions, there can be no assurance that similar earthquakes will not happen in the future and they will not cause material damage to our development projects. If such natural disasters or acts of God damage our properties, our business, results of operations and financial condition may be materially and adversely affected.

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

The global economic crisis in 2008 caused a slowdown in world markets. As financial institutions, companies, investors and consumers attempted to retrench in an effort to reduce exposure, save capital and weather the economic contraction, the demand for and hence value of

real estate and the supply of credit decreased. Although the real estate market has recovered in the past year, any economic slowdown in the future could affect our property investment and property development projects. In addition, banks in the PRC have been tightening credit since 2010 after extensive lending in the first half of 2009. This may cause an increase in the interest expense on our bank borrowings, or banks may reduce the amount of, or discontinue, banking facilities currently available to us.

Although the Chinese economy started recovering in the past year, there is no assurance that any economic recovery is sustainable or that the earlier economic crisis and slowdown have come to an end. If market conditions deteriorate or market downturn occurs and becomes more severe, longer lasting or broader than expected, we could face a material loss of revenue and shareholder value and our business, results of operations and financial condition could be materially and adversely affected.

RISKS RELATING TO THE PROPERTY INDUSTRY IN THE PRC

We are subject to regulations implemented by the PRC government, which may adopt further measures intended to prevent overheating of the property sector in the PRC.

Our business is subject to extensive governmental regulation. We are required to comply with various requirements mandated by PRC laws and regulations, including the policies and procedures established by local authorities designed to implement such laws and regulations. In particular, the PRC government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, foreign exchange, property financing, taxation and foreign investment. Between 2004 and the first half of 2008, in response to concerns over the scale of the increase in property investment and the potential overheating of the property sector in the PRC, the PRC government introduced policies to restrict development in the property sector, including:

- suspending or restricting land grants and development approvals for luxury villas and larger-sized units;
- charging idle land fees for land which has not been developed for one year starting from the commencement date stipulated in the land grant contract and canceling land use rights for land which has not been developed for two years or more;
- prohibiting any onward transfer of pre-sold properties before the ownership certificate is obtained;
- requiring that at least 70% of the land supply approved by a local government for residential property development during any given year be used for developing low to medium-cost and small- to medium-size units for sale or as low-cost rental properties;
- requiring that at least 70% of residential projects approved or constructed on or after June 1, 2006 in any administrative jurisdiction must consist of units with a unit floor area of less than 90 sq.m. per unit, and that projects which have received project approvals prior to this date but have not obtained construction permits to adjust their construction plan in order to be in compliance with this new requirement, with the exception of municipalities under direct administration of the PRC central government, provincial capitals and certain cities which may deviate from this ratio under special circumstances upon approval by the MOHURD (“70:90 rule”);
- tightening availability of bank loans to property developers and purchasers of developed properties and increasing the reserve requirements for commercial banks;

- imposing or increasing taxes on short-term gains from second-hand property sales; and
- restricting foreign investment in the property sector by, among other things, increasing registered capital and other requirements for establishing foreign-invested real estate enterprises, tightening foreign exchange control and imposing restrictions on purchases of properties in China by foreign persons.

Beginning in the second half of 2008, in order to combat the impact of the global economic slowdown, the PRC government adopted measures to encourage domestic consumption in the residential property market and support property development, which included the reduction of deed taxes for first-time purchasers of ordinary residential property of less than 90 square meters, the waiver of stamp duty fees for individuals who are purchasing or selling ordinary residential properties, and the exemption of land appreciation tax for individuals who are selling ordinary residential properties. The PRC government is expected to revise or terminate such favorable policies according to changes in market conditions. For example, in December 2009 and January 2010, the PRC government adjusted some of its policies in order to enhance regulation in the property market, restrain property purchases for investment or speculation purposes and keep property prices from rising too quickly in certain cities. In December 2009, the PRC government abolished certain preferential treatment relating to business taxes payable upon transfers of residential properties by property owners. In January 2010, the PRC government imposed more stringent requirements on mortgage loans by requiring purchasers who have already purchased a residence through mortgage financing to pay a minimum down payment of 40% of the purchase price for any additional residences. In April 2010, the State Council issued the Notice on Firmly Preventing Property Price from Increasing Too Rapidly in Certain Cities (關於堅決遏制部分城市房價過快上漲的通知), which, among other things, provides that the minimum down payment for the first property that is larger than 90 sq.m. shall be not less than 30% of the purchase price, down payment for the second property bought with mortgage loans shall be not less than 50% of the purchase price and the loan interest rate shall be not lower than 110% the benchmark lending rate published by the PBOC. In certain areas where commodity residential properties are in short supply and prices rise too quickly, the banks may suspend mortgage loans for the third or further properties bought by mortgage applicants or to non-residents who cannot provide any proof of tax or social insurance payment for more than one year. To strengthen property market regulation and enhance the implementation of these existing policies, on September 29, 2010, the PBOC and CBRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan Policies (關於完善差別化住房信貸政策有關問題的通知), according to which the minimum down payment has raised to 30% for all first home purchases, and commercial banks throughout China are required to suspend mortgage loans for purchases of a customer's third parcel of residential property and beyond. On November 4, 2010, MOHURD and SAFE jointly promulgated the Notice on Further Regulating Administration of Purchase of Houses by Overseas Institutions and Individuals (關於進一步規範境外機構和個人購房管理的通知), pursuant to which, an overseas individual can only purchase one house for self-use within the PRC, and an overseas institution which has established a branch or representative office in the PRC can only purchase non-residential property for business use in the city where it is registered within the PRC. On January 27, 2011, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Adjustment of Policy of Business Tax on Re-sale of Personal Residential Properties (財政部、國家稅務總局關於調整個人住房轉讓營業稅政策的通知) which repeals the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties promulgated on December 22, 2009 and provides that transfer of residential properties by individuals within five years of purchase is subject to business tax based on the sales income, while the business tax levied on the transfer of non-ordinary residential properties by individuals after five years of purchase is based on the difference between the sales income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date. On January 26, 2011, the General Office of the State Council issued the Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知). According to this Notice, for those households who purchase a second house using a loan, the down payment

ratio may not be lower than 60%. The loan interest may not be lower than 1.1 times of the benchmark interest rate. The respective branches of PBOC may raise the down payment ratio and interest rate on loans for the second home based on the price control targets set by the local People's Government for newly constructed houses and the policy requirements, and on the basis of national unified credit policies. In addition, all municipalities, cities specifically designated in the State plan, provincial capitals and cities in which housing prices are excessively high or rising rapidly are to formulate and implement measures for restriction of housing purchases within a specified period. In principle, households with local registered residence which have already owned one set of housing and households without local registered residence are able to produce a local tax payment certificate or a proof of social insurance contribution for a certain number of years shall be restricted to purchasing one set of housing (including newly constructed commodity housing and second-hand housing). In respect of households with local registered residence which have already owned two sets of or more housing, households without local registered residence which have already owned one set of and more housing, and households without local registered residence which are unable to provide a local tax payment certificate or a proof of social insurance contribution for a certain number of years, no houses shall be sold to them within its own administrative area for the time being. The governments of 34 cities, such as Beijing, Shanghai, Guangzhou, Tianjin, Nanjing, Chengdu, Wuxi, Qingdao, Hangzhou, Xi'an, Changzhou, Shenyang and Dalian, have respectively promulgated local measures for restriction of housing purchases to implement the Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知). On January 27, 2011, Shanghai Municipal Government issued Provisional Measure on levying of Property Tax on Part of Individual Residential Properties in Shanghai on a Trial Basis (上海市開展對部分個人住房徵收房產稅試點的暫行辦法). According to this provisional measure, property tax shall be imposed on a second residential property and beyond purchased by Shanghai residents and any residential property purchased by non-Shanghai residents from January 28, 2011. For Shanghai residents who purchase a second residential property after January 28, 2011, if the construction area per capita of all residential properties owned by the family is no more than 60 sq.m. (the "tax-free construction area"), such newly purchased residential property could be temporarily exempted from property tax; if the construction area per capita of all residential properties owned by the family is more than 60 sq.m., property tax will be levied on the construction area of the newly purchased residential properties, as the construction area exceeds the tax-free construction area. The property tax will be provisionally based on 70% of the market price of the taxable residential property with the tax rate at 0.6%. For the taxable residential property whose market price per square meter is no more than 2 times of last year's average sales price of newly constructed commodity residential properties of Shanghai, the tax rate shall temporarily be 0.4%. In February 2011, the Shanghai municipal government announced that for taxable residential properties whose market price is no more than RMB28,426, the tax rate is 0.4%. On January 28, 2011, Chongqing Municipal Government issued the Provisional Measures on levying Property Tax on Part of Individual Residential Properties on a Trial Basis (重慶市政府對部分個人住房徵收房產稅改革試點暫行辦法) and Detailed Implementation Rules on Administration of Collection of Property Tax of Residential Property in Chongqing Municipality (重慶市個人住房房產稅徵收管理實施細則). Within nine trial districts, property tax shall be imposed on the detached commodity house, newly purchased high-end residential property and second ordinary residential property newly purchased by individuals who do not have local household registration (戶口), entities or jobs in Chongqing on January 28, 2011. The applicable tax rate of detached commodity house and high-end residential property shall be 0.5%, 1% or 1.2%, based on the transaction prices of such properties. The applicable tax rate of second ordinary residential property newly purchased by individuals who do not have local household registration (戶口), entities or jobs in Chongqing is 0.5%. The provisional measure and its implementation rules also set detailed guidelines on tax exemption and administration on tax collection. See "Regulation." We cannot assure you that the PRC government will not adopt more stringent industry policies, regulations and measures in the future. If we fail to adapt our

operations to such new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt our business or cause us to incur additional costs, our business prospects, financial condition and results of operations may be materially and adversely affected.

Our investments in the PRC are subject to the PRC government's control over foreign investment in the property sector.

The PRC government imposes restrictions on foreign investment in the property sector to curtail the overheating of the property sector by, among other things, increasing the capital and other requirements for establishing foreign-invested real estate enterprises, tightening foreign exchange control and imposing restrictions on purchases of properties in China by foreign persons. For example, in May 2007, the PRC Ministry of Commerce (中華人民共和國商務部) (“MOFCOM”) and the PRC State Administration of Foreign Exchange (中華人民共和國國家外匯管理局) (“SAFE”) jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in Real Estate Sector in the PRC (關於進一步加強、規範外商直接投資房地產業審批和監管的通知), which, among other things, provides that:

- Foreign investment in the real estate sector in the PRC relating to high-end properties should be strictly controlled.
- Prior to obtaining approval for establishment of a Foreign-Invested Real Estate Entity (the “FIREEs”), foreign investors must first obtain land use rights and property ownership certificates, or have entered into pre-sale or pre-granting agreements with the land administration authority or property developer/owner.
- Acquisition of or investment in domestic real estate enterprises by way of round-trip investment (including the same actual controlling person) shall be strictly controlled.
- Further, overseas investors may not avoid approval procedures for foreign investment in property by changing the actual controlling person of the domestic real estate enterprise.
- Once the foreign exchange authority has found the foreign-invested property enterprise to have been established by deliberate evasion of foreign exchange and false representation, it shall take action against the enterprise’s remittance of capital and interest accrued without approval, and the enterprise shall bear liability for the illegal purchase and evasion of foreign exchange.
- Shareholders of FIREEs are prohibited from guaranteeing a fixed return or the same effect to the other party in any way.
- If foreign-invested enterprises in China engage in real estate development or operations or if FIREEs in China engage in new real estate project developments, they must first apply to the examination and approval authorities for their expansion of scope of business or scale of operations in accordance with the PRC laws and regulations related to foreign investments.
- The local examination and approval authorities must file with MOFCOM their approvals of establishment of FIREEs for record-keeping, and must exercise due control over foreign investments in high-end properties.
- For those FIREEs which fail to pass the joint annual inspection of foreign-invested companies and have not completed the required filing with MOFCOM, local SAFE administrations and designated foreign exchange banks must not permit any foreign exchange sales and settlement under such FIREEs’ capital accounts.

- MOFCOM shall have the right to investigate and rectify the approvals of FIREEs which are not in compliance with the laws and regulations made by local examination and approval authorities, and SAFE shall not handle the foreign exchange registration for such FIREEs.

These restrictions imposed by the PRC government on foreign investment in the property sector may affect our ability to make further investments in our PRC subsidiaries and, as a result, may limit our business growth and have a material adverse effect on our business prospects, financial condition and results of operations.

The PRC government has imposed restrictions on the ability of PRC property developers to receive offshore funds which could affect our ability to deploy funds raised outside China in our business inside China.

In July 2007, the General Affairs Department of SAFE issued the Circular on Distribution of List of the First Group of Foreign-Invested Real Estate Projects Filed with the Ministry of Commerce (關於下發第一批通過商務部備案的外商投資房地產項目名單的通知). The notice stipulates, among other things, (i) that SAFE will no longer process foreign debt registrations or applications for the purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained approval certificates from and registered with MOFCOM on or after June 1, 2007 and (ii) that SAFE will no longer process foreign exchange registrations (or alteration of such registrations) or applications for the sale and purchase of foreign exchange submitted by real estate enterprises with foreign investment which obtained approval certificates from local government commerce departments on or after June 1, 2007 but which did not register with MOFCOM. This new regulation prohibits foreign-invested real estate companies from raising funds offshore for the purpose of injecting such funds into the companies by way of shareholder loans. This notice, however, does not restrict property developers from receiving foreign capital by way of increasing the registered capital of existing foreign-invested companies or through the establishment of new foreign-invested real estate companies, provided that such increase of registered capital or establishment of new company has been duly approved by MOFCOM or its local branches and registered with MOFCOM.

As a foreign-invested PRC property developer, we are subject to this notice. We intend to repatriate to China offshore funds that we may raise in this offering by increasing the registered capital of our existing subsidiaries or by establishing new subsidiaries. However, we cannot assure you that we will be able to obtain in a timely manner, if at all, all necessary foreign exchange approval certificates for the deployment of offshore funds, or that we will be able to obtain in a timely manner, if at all, any registration of new foreign-invested subsidiaries or additional registered capital increases in the future. Further, we cannot assure you that the PRC government will not introduce new policies that further restrict our ability to repatriate to China the funds raised in this offering. If we fail to repatriate to China any or all of the net proceeds raised in this offering, our liquidity and our ability to fund and expand our business could be adversely and materially affected.

In addition, any capital contributions made to our operating subsidiaries in China are also subject to the foreign investment regulations and foreign exchange regulations in the PRC. For example, in accordance with a circular promulgated by SAFE in August 2008 with respect to the administration of conversion of foreign exchange capital contribution of foreign invested enterprises into Renminbi (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知), unless otherwise permitted by PRC laws or regulations, Renminbi capital converted from foreign exchange capital contribution can only be applied to the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investment or acquisition. Pursuant to this offering memorandum, we may encounter difficulties in increasing the capital contribution to our project companies and subsequently converting such capital contribution into Renminbi for equity investment or acquisition in China. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make capital contributions to our project companies as their general working capital or to fund their operations may be negatively affected, which could materially and adversely affect our business prospects, financial condition and results of operations.

We are heavily dependent on the performance of the property market in China, which is at a relatively early stage of development.

Private ownership of property in the PRC is still in a relatively early stage of development. Although demand for private property in the PRC has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. It is extremely difficult to predict how much and when demand will develop, as many social, political, economic, legal and other factors, most of which are beyond our control, may affect the development of the property market. The level of uncertainty is increased by the limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

The lack of a liquid secondary market for residential real estate may discourage investors from acquiring new properties as resale is not only difficult, but can also be a long and costly process. The limited amount of property mortgage financing available to PRC individuals, compounded by the lack of security of legal title and enforceability of property rights, may further inhibit demand for property developments.

Increase in resettlement costs and the inability to reach resettlement agreements associated with certain property developments may materially and adversely affect our business prospects, financial condition and results of operations.

Land parcels acquired by property developers for future development may have existing buildings or other structures or be occupied by third parties. In accordance to the City Housing Resettlement Administration Regulations (城市房屋拆建管理條例) and applicable local regulations, a property developer in the PRC is required to enter into a written agreement with the owners or residents of existing buildings subject to demolition for development, directly or indirectly through the local government, and to provide compensation for their relocation and resettlement. The compensation payable by the property developer is calculated in accordance with a pre-set formula determined by the relevant provincial authorities, which may be subject to changes. If such compensation formula is changed and the levels of compensation increased, land acquisition costs for property developers may be subject to substantial increases. In addition, if property developers or the local government fail to reach an agreement over compensation with the owners or residents of the buildings subject to demolition, any party may apply to the relevant housing resettlement authorities for a ruling on the amount of compensation, which may delay a project's timetable. Such delays may lead to an increase in cost and a delay in the expected cash inflow resulting from pre-sales of the relevant projects. If we experience an increase in resettlement costs or experience delay due to our inability to reach a resettlement agreement, our business prospects, financial condition and results of operations may be materially and adversely affected.

There is a lack of reliable and updated information on property market conditions the PRC.

We are subject to property market conditions in the PRC. Currently, reliable and up-to-date information on the amount and nature of property development and investment activities, the demand for such development, the supply of new properties being developed or the availability of land and buildings suitable for development and investment is not generally available in the PRC. Consequently, our investment and business decisions may not always have been, and may not in the future be, based on accurate, complete and timely information. Inaccurate information may adversely affect our business decisions, which could materially and adversely affect our business prospects, results of operations and financial condition.

RISKS RELATING TO THE PRC

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

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

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

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

Governmental control over currency conversion may limit our ability to utilize our cash effectively and potentially affect our ability to pay interest to Noteholders.

Substantially all of our turnover is denominated in Renminbi. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Under our current corporate structure, our Company's income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay interest to Noteholders. In addition, since a significant amount of our future cash flow from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies.

It may be difficult to effect service of process upon us or our Directors or senior officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.

A significant portion of our assets and our subsidiaries are located in the PRC. In addition, most of our Directors and officers reside in the PRC, and the assets of our Directors and officers may also be located in the PRC. As a result, it may not be possible to effect service of process outside the PRC upon most of our Directors and officers, including with respect to matters arising under applicable securities laws. A judgment of a court of another jurisdiction may be reciprocally recognized or enforced in the PRC if that jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of any other requirements. Our PRC legal adviser has advised us that the PRC does not have treaties providing for the reciprocal acknowledgement and enforcement of judgments of courts with the United States and most other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in any of these jurisdictions may be difficult.

Our business may be adversely affected by a renewed outbreak of SARS, H1N1, avian influenza or any other highly contagious disease.

In March 2003, there was an outbreak of Severe Acute Respiratory Syndrome ("SARS"), a highly contagious disease, in China and some other countries. A renewed outbreak of SARS in China or other neighboring countries, or an outbreak of another highly contagious disease, will affect China's overall economy. This may in turn significantly affect our business. In addition, if an employee of any of our subsidiaries were to contract SARS or another highly contagious disease, we may need to restrict or even suspend the operations of such company. In recent years, an epidemic of highly pathogenic avian influenza has affected humans throughout Asia and is considered to be a public health concern. There also have recently been a number of documented

cases of humans found to have contracted H1N1 in the PRC. If outbreaks of H1N1 or avian influenza infections or any other serious contagious disease were to escalate, their effects on the PRC economy could be similar to or worse than those experienced as a result of the SARS outbreak.

RISK RELATING TO THE NOTES

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries or certain other Non-Guarantor Subsidiaries. Our primary assets are ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors. The Subsidiary Guarantors do not, and the JV Subsidiary Guarantors (if any) may not, have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be) will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries.

Creditors, including trade creditors of Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on the Non-Guarantor Subsidiaries' assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries, including their obligations under guarantees they have issued or will issue in connection with our business operations, and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2010, our PRC subsidiaries had bank and other loans in the amount of approximately RMB14,666.7 million (US\$2,222.2 million), capital and operating lease commitments in the amount of approximately RMB15,090.0 million (US\$2,286.4 million) and contingent liabilities arising from guarantees in the amount of approximately RMB5,204.9 million (US\$788.6 million). The Notes and the Indenture permit us, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) securing the related obligations over claims of holders of the Notes.

Under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee, or JV Subsidiary Guarantee, following the sale or issuance to a third party of a 20.0% to 49.9% equity interest in such subsidiary by its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such Subsidiary Guarantor, or JV Subsidiary Guarantor, multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared to a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

The Notes are unsecured obligations.

As the Notes are unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, reorganization or other winding-up proceeding;

- there is a default in payment under our future secured indebtedness or other unsecured
- indebtedness; or
- there is an acceleration of any of our indebtedness.

If any of these events occur, our assets may not be sufficient to pay amounts due on the Notes.

We have incurred significant indebtedness and may incur substantial additional indebtedness in the future, which could materially and adversely affect our financial condition and could further intensify the risks associated with our leverage.

We have significant indebtedness outstanding. As of December 31, 2010, our consolidated current bank loans and other loans and our consolidated non-current bank loans and other loans amounted to approximately RMB2,859.9 million (US\$433.3 million) and RMB14,464.5 million (US\$2,191.6 million), respectively. In addition, as of December 31, 2010, our consolidated capital and operating lease commitments were approximately RMB15,090.2 million (US\$2,286.4 million). See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital Commitments.”

In addition, we and our subsidiaries may from time to time incur substantial additional indebtedness. Although the Indenture limits us and our subsidiaries from incurring additional debt, these limitations are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of such indebtedness and leverage could intensify. The amount of our indebtedness could have important consequences to the Noteholders. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry condition;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying indebtedness, reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in the businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, our ability to borrow additional funds; and
- increase the cost of additional financing.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing existing indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms.

Our operations are restricted by the terms of the Notes, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.

The Indenture includes a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- engage in any business other than permitted business;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in the Indenture or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under our other debt agreements, including the Indenture. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Under PRC regulations, we may not be able to transfer to our PRC subsidiaries proceeds from this offering in the form of a loan, which could impair our ability to make timely payments of interest, or even principal, under the Notes.

According to the existing PRC rules and regulations relating to supervision of foreign debt, loans by foreign companies to their subsidiaries in China, such as our PRC subsidiaries established as foreign-invested enterprises in China, are considered foreign debt, and such loans must be registered with the relevant local branches of SAFE. Such rules and regulations also provide that the total outstanding amount of such foreign debt borrowed by any foreign-invested enterprise may not exceed the difference between its total investment and its registered capital, each as approved by the relevant PRC authorities. In addition, in July 2007, SAFE issued a circular indicating that it would not process any foreign debt registration or conversion of foreign debt for foreign-invested enterprises in the real estate sector that was approved by the local office of MOFCOM and registered with MOFCOM after June 1, 2007. Foreign-invested enterprises include joint ventures and wholly foreign-owned enterprises established in China, such as most of our PRC subsidiaries. Therefore, the proceeds of the current offering that will be used for land acquisitions and developments in China may only be transferred to our PRC subsidiaries as equity investments and not as loans. We would therefore have to rely on dividend payments from our PRC subsidiaries, and we cannot assure you that dividend payments will be available on each interest payment date to pay the interest due and payable under the Notes, or on the maturity date to pay the principal of the outstanding Notes.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments or agreements of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with IFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends. In addition, dividends paid by our PRC subsidiaries to their non-PRC parent companies generally will be subject to a 10% withholding tax, unless any lower treaty rate is applicable according to an applicable tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated. Pursuant to an avoidance of double taxation arrangement between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such restrictions tax rate may be lowered to 5%. However, according to a circular issued by the SAT in October 2009, tax treaty benefits will be denied to “conduit” or shell companies without business substance. As a result of such restrictions, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by

the Notes or satisfy the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees as the case may be, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees, as the case may be.

The terms of the Notes permit us to make investments in Unrestricted Subsidiaries and minority owned joint ventures.

In light of land prices, sizes of projects, the competitive landscape and other factors, we may from time to time consider developing property developments jointly with other property developers. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries under the indenture governing the Notes. Although the indenture governing the Notes restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications. See the definition of “Permitted Investments” in “Description of the Notes.”

We may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event we are required to pay additional amounts because we are treated as a PRC resident enterprise.

As described in “Taxation — PRC Taxation,” we may be treated as a PRC resident enterprise under the EIT Law. If we are treated as a PRC resident enterprise under the EIT Law, we would be required to withhold PRC tax on interest payable to certain of our non-resident investors and pay, subject to certain exceptions, additional amounts with respect to such withholding tax. As described in “Description of the Notes — Redemption for Taxation Reasons,” in the event we are required to pay additional amounts as a result of certain changes in tax law, including changes in existing official position or the stating of an official position that results in our being required to withhold tax due to our being treated as a PRC resident enterprise, we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

We may not be able to repurchase the Notes upon a Change of Control Triggering Event.

We must offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See “Description of the Notes.”

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have sufficient available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of outstanding Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes would constitute an Event of Default under the Notes. The Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of Change of Control Triggering Event for purposes of the Indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancing, restructurings or other recapitalizations. These types of transactions could, however, increase our indebtedness or

otherwise affect our capital structure or credit ratings. The definition of Change of Control Triggering Event for purposes of the Indenture also includes a phrase relating to the sale of “all or substantially all” of our assets. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar.

Because our Company is incorporated, and the JV Subsidiary Guarantors (if any) may be incorporated, under the laws of the Cayman Islands, an insolvency proceeding relating to us or any such JV Subsidiary Guarantor, even if brought in the United States, would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law. In addition, our Subsidiary Guarantors and other JV Subsidiary Guarantors (if any) are incorporated or may be incorporated in the British Virgin Islands or Hong Kong and the insolvency laws of the British Virgin Islands and Hong Kong may also differ from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

We conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. The Subsidiary Guarantors, as equity holders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. Any JV Subsidiary Guarantors which become equity holders of our PRC subsidiaries would also be subject to such laws. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties carefully before you invest in our Notes.

Fluctuation in the value of RMB may have a material adverse effect on our business and on your investment.

Although substantially all of our turnover is generated by our PRC operating subsidiaries and is denominated in Renminbi, we are required to settle all amounts due under the Notes (including principal, premium, interest and redemption payments) in U.S. dollars. The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in appreciation of the Renminbi against the U.S. dollar. Any significant further appreciation of RMB may materially and adversely affect our cash flow, earnings and financial position, and the value of, and any dividends payable on, the Shares in foreign currency terms. For example, an appreciation of RMB against the U.S. dollar would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to such risks. Following the offering of the Notes, we may enter into foreign exchange or interest rate hedging agreements with respect to our

U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. Each of the Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the indenture governing the Notes. If we were unable to provide such collateral, it could constitute a default under such agreements.

A trading market for the Notes may not develop, and there are restrictions on resale of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. Although we have received approval in-principle for the listing and quotation of the Notes on the Official List of the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing on the SGX-ST, or that, if listed, a liquid trading market will develop. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See the section entitled “Transfer Restrictions.” We cannot predict whether an active trading market for the Notes will develop or be sustained.

The ratings assigned to the Notes and our corporate ratings may be lowered or withdrawn in the future.

The Notes have been provisionally rated “BB” by Standard & Poor’s Ratings Services and “Ba3” by Moody’s Investors Service. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may materially and adversely affect the market price of the Notes.

Certain transactions that constitute “connected transactions” under the Listing Rules will not be subject to the “Limitation on Transactions with Shareholders and Affiliates” covenant.

Our shares are listed on the Hong Kong Stock Exchange and we are required to comply with its Listing Rules, which provide, among other things, that a “connected transaction” exceeding the applicable de minimis value thresholds will require prior approval of the independent shareholders of such listed company. However, the “Limitation on Transactions with Shareholders and Affiliates” covenant in the Notes does not capture transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officer’s certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our turnover, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, government

regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. We cannot assure you that these developments will not occur in the future.

There may be less publicly available information about us than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this offering memorandum has been prepared in accordance with IFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions, which might be material to the financial information contained in this offering memorandum.

We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, which standards may be different from those applicable to debt securities listed in certain other countries.

We will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different from those imposed by securities exchanges in other countries such as the United States or Hong Kong. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

The transfer of the Notes is restricted which may adversely affect their liquidity and the price at which they may be sold.

The Notes and the guarantee of the Notes have not been registered under, and we are not obligated to register the Notes or the guarantee of the Notes under, the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See the section entitled “Transfer Restrictions.” We have not agreed to or otherwise undertaken to register the Notes and the guarantee of the Notes (including by way of an exchange offer), and we have no intention to do so.

The Notes will initially be held in book entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificated form and held through the DTC and its participants, including Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme*, Luxembourg (“Clearstream”). Interests in the global notes will trade in book entry form only, and Notes in definitive registered form, or definitive registered notes, will be issued in exchange for book entry interests only in very limited circumstances. Owners of book entry interests will not be considered owners or holders of Notes. The custodian for the DTC will be the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to the paying agent which will make payments to DTC. Thereafter, these payments will be credited to accounts of participants (including Euroclear and Clearstream) that hold book entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the custodian for DTC, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book entry interest, you must rely on the procedures of DTC, Euroclear and Clearstream, and if you are not a participant in the DTC, Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the notes. Instead, if you own a book entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from the DTC, Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all book entry interests, if you own a book entry interest, you will be restricted to acting through the DTC, Euroclear and Clearstream. The procedures to be implemented through the DTC, Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the notes.

RISKS RELATING TO THE SUBSIDIARY GUARANTEES AND THE JV SUBSIDIARY GUARANTEES

Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees.

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries and their direct PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of PRC or their future PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee or a JV Subsidiary Guarantee at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries. See “Description of the Notes — The Subsidiary Guarantees” for a list of the Non-Guarantor Subsidiaries.

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors or JV Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so. See “— Risks Relating to the Notes — We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.”

In addition, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to a third party of a minority interest in such subsidiary or its direct or indirect majority shareholders. Recovery under a JV Subsidiary Guarantee is limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company.

The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees.

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in the Cayman Islands, the British Virgin Islands, Hong Kong and other jurisdictions where future Subsidiary Guarantors or JV Subsidiary Guarantors (if any) may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of the incurrence of such guarantee;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the applicable jurisdiction. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its properties at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debts as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantor. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be) will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor or JV Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids a Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be), subordinates such guarantee to other indebtedness of the Subsidiary Guarantor or JV Subsidiary Guarantor, or holds the Subsidiary Guarantee or JV Subsidiary Guarantee (as the case may be) unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor or JV Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor or JV Subsidiary Guarantor (as the case may be), and would solely be creditors of us and any Subsidiary Guarantors or JV Subsidiary Guarantors whose guarantees have not been voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable in connection with this offering, will be approximately US\$735.0 million. We intend to use the net proceeds to finance our existing and new property projects and for general corporate purposes.

We may adjust our development plans in response to changing market conditions and therefore reallocate the use of the proceeds.

Pending application of the net proceeds of this offering, we intend to invest the net proceeds in Temporary Cash Investments (as defined under “Description of the Notes — Definitions”).

EXCHANGE RATE INFORMATION

CHINA

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The value of the Renminbi against the U.S. dollar appreciated on the same day by approximately 2% and has since appreciated significantly in general. The PBOC authorized the China Foreign Exchange Trading Center, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day. On May 18, 2007, the PBOC announced that the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar was to be expanded from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On June 20, 2010, the PBOC announced its intention to further reform the Renminbi exchange rate regime by allowing greater flexibility in the Renminbi exchange rate. The PRC government may from time to time make further adjustments to the exchange rate system in the future.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

| Period | Noon buying rate | | | |
|-------------------------------------|------------------|------------------------|--------|--------|
| | Period end | Average ⁽¹⁾ | High | Low |
| RMB per US\$1.00 | | | | |
| 2006 | 7.8041 | 7.9579 | 8.0702 | 7.8041 |
| 2007 | 7.2946 | 7.5806 | 7.8127 | 7.2946 |
| 2008 | 6.8225 | 6.9477 | 7.2946 | 6.7800 |
| 2009 | 6.8259 | 6.8307 | 6.8470 | 6.8176 |
| 2010 | 6.6000 | 6.6796 | 6.8330 | 6.6000 |
| September 2010 | 6.6905 | 6.7396 | 6.8102 | 6.6869 |
| October 2010 | 6.6707 | 6.6678 | 6.6912 | 6.6397 |
| November 2010 | 6.6670 | 6.6538 | 6.6892 | 6.6330 |
| December 2010 | 6.6000 | 6.6497 | 6.6745 | 6.6000 |
| 2011 | | | | |
| January 2011 | 6.6017 | 6.5964 | 6.6364 | 6.5809 |
| February 2011 | 6.5713 | 6.5761 | 6.5965 | 6.5520 |
| March 2011 (through March 18, 2011) | 6.5689 | 6.5690 | 6.5743 | 6.5540 |

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

On March 18, 2011, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US\$1.00 = RMB6.5689 as certified for customs purposes by the Federal Reserve Bank of New York.

HONG KONG

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. The Basic Law of the Hong Kong (the “Basic Law”), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK\$7.80 per U.S. dollar to a rate range of HK\$7.75 to HK\$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. However, no assurance can be given that the Hong Kong government will maintain the link at HK\$7.80 to US\$1.00 or at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

| Period | Noon buying rate | | | |
|--------------------------------|------------------|------------------------|--------|--------|
| | Period end | Average ⁽¹⁾ | High | Low |
| | | (HK\$ per US\$1.00) | | |
| 2006 | 7.7771 | 7.7685 | 7.7928 | 7.7506 |
| 2007 | 7.7984 | 7.8008 | 7.8289 | 7.7497 |
| 2008 | 7.7499 | 7.7814 | 7.8159 | 7.7497 |
| 2009 | 7.7536 | 7.7513 | 7.7618 | 7.7495 |
| 2010 | | | | |
| September | 7.7599 | 7.7646 | 7.7738 | 7.7561 |
| October | 7.7513 | 7.7579 | 7.7642 | 7.7513 |
| November | 7.7649 | 7.7550 | 7.7656 | 7.7506 |
| December | 7.7810 | 7.7741 | 7.7733 | 7.7612 |
| 2011 | | | | |
| January | 7.7926 | 7.7800 | 7.7978 | 7.7683 |
| February | 7.7933 | 7.7895 | 7.7957 | 7.7823 |
| March (through March 18) | 7.7999 | 7.7912 | 7.8012 | 7.7858 |

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant year, except for average rates for the months in 2010 and 2011, which are determined by averaging the daily rates during the respective periods.

On March 18, 2011, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was US\$1.00 = HK\$7.7999 as certified for customs purposes by the Federal Reserve Bank of New York.

CAPITALIZATION AND INDEBTEDNESS

The table below sets forth our consolidated current borrowings and capitalization as of December 31, 2010:

- on an actual basis; and
- on an adjusted basis to give effect to the issuance of the Notes and receipt of the net proceeds from this offering after deducting the underwriting discounts and commissions and other estimated expenses relating to this offering payable by us.

You should read this table in conjunction with our consolidated financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this offering memorandum.

| | As of December 31, 2010 | | | |
|--|-------------------------|------------------|-------------------|------------------|
| | Actual | | As adjusted | |
| | (RMB'000) | (US\$'000) | (RMB'000) | (US\$'000) |
| Bank loans, secured | 7,614,700 | 1,153,742 | 7,614,700 | 1,153,742 |
| Bank loans, unsecured | 7,765,665 | 1,176,616 | 7,765,665 | 1,176,616 |
| Other loan, secured | 246,000 | 37,273 | 246,000 | 37,273 |
| Other loan, unsecured | 310,000 | 46,970 | 310,000 | 46,970 |
| Bond, secured | 1,387,994 | 210,302 | 1,387,994 | 210,302 |
| Notes offered hereby | — | — | 4,851,000 | 735,000 |
| Total bank and other borrowings | 17,324,359 | 2,624,903 | 22,175,359 | 3,359,903 |
| Less: Bank and other borrowings | | | | |
| - due within one year | (2,859,870) | (433,314) | (2,859,870) | (433,314) |
| Bank and other borrowings | | | | |
| - due after one year | 14,464,489 | 2,191,589 | 19,315,489 | 2,926,589 |
| Equity | | | | |
| Share capital | 453,410 | 68,698 | 453,410 | 68,698 |
| Other reserves | 7,084,571 | 1,073,420 | 7,084,571 | 1,073,420 |
| Retained earnings | 8,442,275 | 1,279,133 | 8,442,275 | 1,279,133 |
| Capital and reserves attributable to equity holders of the Company | 15,980,256 | 2,421,251 | 15,980,256 | 2,421,251 |
| Total capitalization⁽¹⁾ | <u>30,444,745</u> | <u>4,612,840</u> | <u>35,295,745</u> | <u>5,347,840</u> |

Note:

(1) Total capitalization equals total non-current borrowings plus capital and reserves attributable to equity holders of the Company.

As of December 31, 2010, our total outstanding borrowings amounted to RMB17,324.4 million (US\$2,624.9 million).

As of December 31, 2010, our total cash and cash equivalents (excluding restricted cash) amounted to RMB9,863.1 million (US\$1,494.4 million).

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our indebtedness or capitalization since December 31, 2010.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated income statement data for the years ended December 31, 2008, 2009 and 2010 and the selected consolidated balance sheet data as of December 31, 2008, 2009 and 2010 below have been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. You should read the selected financial data below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included elsewhere in this offering memorandum. Historical results are not necessarily indicative of results that may be achieved in any future period. Our consolidated financial statements have been prepared and presented in accordance with IFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions.

Selected Consolidated Statements of Comprehensive Income

| | For the year ended December 31, | | | |
|--|---------------------------------|------------------|------------------|----------------|
| | 2008 | 2009 | 2010 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (US\$'000) |
| Consolidated statement of comprehensive income: | | | | |
| Revenue | 4,475,199 | 11,373,962 | 15,093,122 | 2,286,837 |
| Cost of sales | (3,321,192) | (8,042,326) | (9,995,934) | (1,514,535) |
| Gross profit | 1,154,007 | 3,331,636 | 5,097,188 | 772,302 |
| Other income | 132,068 | 421,188 | 91,531 | 13,868 |
| Other gain and losses | — | 13,990 | 34,652 | 5,250 |
| Fair value gain upon transfer to investment properties | — | — | 777,023 | 117,731 |
| Change in fair value of investment properties | 125,100 | 920,945 | 1,713,090 | 259,559 |
| Selling and marketing costs | (323,910) | (314,119) | (327,880) | (49,679) |
| Administrative expenses | (408,286) | (421,099) | (433,488) | (65,680) |
| Finance costs | (61,525) | (27,499) | (66,677) | (10,103) |
| Share of results of jointly controlled entities | 63,225 | 135,998 | 183,035 | 27,733 |
| Profit before taxation | 680,679 | 4,061,040 | 7,068,474 | 1,070,981 |
| Income tax expense | (281,198) | (1,568,581) | (2,051,101) | (310,773) |
| Profit for the year and total comprehensive income for the year | <u>399,481</u> | <u>2,492,459</u> | <u>5,017,373</u> | <u>760,208</u> |
| Attributable to: | | | | |
| Owners of the Company | 331,590 | 2,209,207 | 4,130,155 | 625,781 |
| Non-controlling interests | 67,891 | 283,252 | 887,218 | 134,427 |
| | <u>399,481</u> | <u>2,492,459</u> | <u>5,017,373</u> | <u>760,208</u> |
| Earnings per share in RMB cents | | | | |
| Basic | <u>8.3</u> | <u>53.5</u> | <u>80.2</u> | <u>12.2</u> |
| Diluted | <u>N/A</u> | <u>53.2</u> | <u>79.8</u> | <u>12.1</u> |
| Other financial data (unaudited): | | | | |
| EBITDA ⁽¹⁾ | 438,695 | 2,618,281 | 4,359,839 | 660,582 |
| EBITDA margin ⁽²⁾ | 9.8% | 23.0% | 28.9% | 28.9% |

- (1) EBITDA consists of profit for the year before income tax expenses, finance costs, share of results of jointly controlled entities, other gain and loss, other income, depreciation, amortization, net gain or loss upon transfer to investment properties and net gain or loss from fair value of investment properties. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the year or period under IFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See the section entitled "Description of the Notes—Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

Summary Consolidated Statement of Financial Position

| | As of December 31, | | | |
|--|--------------------|-------------------|-------------------|------------------|
| | 2008 | 2009 | 2010 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (US\$'000) |
| Consolidated statement of financial position: | | | | |
| Non-current assets | | | | |
| Investment properties | 3,759,100 | 4,698,300 | 8,041,000 | 1,218,333 |
| Property, plant and equipment | 166,976 | 171,861 | 171,741 | 26,021 |
| Properties under development | 10,701 | — | — | — |
| Prepaid lease payments | 3,026,288 | 3,194,207 | 7,882,002 | 1,194,243 |
| Interests in associates | 1 | 1 | 1 | 1 |
| Interests in jointly controlled entities | 932,468 | 2,373,834 | 2,464,099 | 373,348 |
| Available-for-sale investments | 8,600 | 8,600 | 8,600 | 1,303 |
| Deposits paid for acquisition of land use rights | 845,780 | 3,264,561 | 4,274,216 | 647,608 |
| Deposits paid for acquisition of additional interest in a subsidiary | — | 34,000 | — | — |
| Deferred taxation assets | 347,960 | 227,702 | 436,035 | 66,066 |
| Amount due from a minority shareholder | 12,490 | — | — | — |
| | <u>9,110,364</u> | <u>13,973,066</u> | <u>23,277,694</u> | <u>3,526,923</u> |
| Current assets | | | | |
| Inventories | 138,652 | 301,048 | 415,939 | 63,021 |
| Properties under development for sales | 14,880,070 | 18,312,478 | 31,590,625 | 4,786,458 |
| Properties held for sales | 2,582,592 | 1,008,296 | 3,004,066 | 455,162 |
| Accounts and other receivables, deposits and prepayments | 1,611,597 | 1,382,897 | 2,516,293 | 381,257 |
| Amounts due from jointly controlled entities | 107,094 | 35,271 | 7,362 | 1,115 |
| Taxation recoverable | 131,722 | 134,265 | 539,034 | 81,672 |
| Pledged bank deposits | 605,379 | 496,208 | 499,419 | 75,670 |
| Bank balances and cash | 3,228,797 | 6,801,573 | 9,863,132 | 1,494,414 |
| | <u>23,285,903</u> | <u>28,472,036</u> | <u>48,435,870</u> | <u>7,338,769</u> |

| | As of December 31, | | | |
|---|--------------------|-------------------|-------------------|------------------|
| | 2008 | 2009 | 2010 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (US\$'000) |
| Current liabilities | | | | |
| Accounts payable, deposits received and accrued charges | 13,843,721 | 16,362,320 | 31,474,867 | 4,768,919 |
| Amounts due to jointly controlled entities | 19,957 | 363,879 | 1,319,490 | 199,923 |
| Amounts due to directors | 81,590 | — | — | — |
| Taxation payable | 935,528 | 1,616,029 | 2,635,182 | 399,270 |
| Bank and other borrowings — due within one year | 6,480,051 | 3,710,200 | 2,859,870 | 433,314 |
| | <u>21,360,847</u> | <u>22,052,428</u> | <u>38,289,409</u> | <u>5,801,426</u> |
| Net current assets | 1,925,056 | 6,419,608 | 10,146,461 | 1,537,343 |
| Total assets less current liabilities | <u>11,035,420</u> | <u>20,392,674</u> | <u>33,424,155</u> | <u>5,064,266</u> |
| Capital and reserves | | | | |
| Share capital | 351,668 | 452,972 | 453,410 | 68,698 |
| Reserves | 2,770,893 | 11,685,706 | 15,526,846 | 2,352,553 |
| Equity attributable to owners of the Company | 3,122,561 | 12,138,678 | 15,980,256 | 2,421,251 |
| Non-controlling interests | 821,673 | 1,099,884 | 1,385,564 | 209,934 |
| Total equity | 3,944,234 | 13,238,562 | 17,365,820 | 2,631,185 |
| Non-current liabilities | | | | |
| Bank and other borrowings — due after one year | 6,359,700 | 6,055,305 | 14,464,489 | 2,191,589 |
| Deferred taxation liabilities | 731,486 | 1,098,807 | 1,593,846 | 241,492 |
| | <u>7,091,186</u> | <u>7,154,112</u> | <u>16,058,335</u> | <u>2,433,081</u> |
| | <u>11,035,420</u> | <u>20,392,674</u> | <u>33,424,155</u> | <u>5,064,266</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with "Selected Consolidated Financial Data" and our consolidated financial statements and the related notes included elsewhere in this offering memorandum. Our consolidated financial statements have been prepared and presented in accordance with IFRS, which differ in certain respects from U.S. GAAP and 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 elsewhere in this offering memorandum. In this section of the offering memorandum, references to "2008," "2009" and "2010" refer to our financial years ended December 31, 2008, 2009 and 2010, respectively.

OVERVIEW

We are a national leader in China's real estate market engaged in property development, investment and management across the country with strong presence in the Western Region, the Pan Bohai Rim and the Yangtze River Delta. In 2010, we ranked eighth among all PRC real estate developers, with annual contract sales of RMB33.3 billion¹. As of December 31, 2010, we had 58 projects in 13 different cities with a total land bank of approximately 31.6 million sq.m. in GFA. We have a wide product spectrum and a broad customer base. We offer residences for the mass market, the middle class and the affluent and our residential property development projects cover a wide range of middle-to-high end products, including high-rise apartment buildings, low-rise garden apartments, townhouses and luxury stand-alone houses. We have also built various middle to large scale shopping malls and other commercial properties. Our aim is to become one of the most respected and trusted national market leaders in the property industry in China.

In 2008, 2009 and 2010, we entered into sales contracts for our property development projects (including those undertaken by our jointly controlled entities) with an aggregate contract value of approximately RMB10.2 billion, RMB18.4 billion and RMB33.3 billion, respectively. We believe that our strategic geographic expansion from the Western Region to the Pan Bohai Rim and the Yangtze River Delta, together with organic growth of our business in cities in which we have already established a presence, have contributed to our overall growth in contract sales and reduced the geographic concentration of our business. Our contract sales from the Western Region decreased from approximately 57.3% of our total contract sales in 2008 to 40.4% in 2010 and our contract sales from the Pan Bohai Rim decreased from 39.4% of our total contract sales to 35.4% during the same period. During the same period, our contract sales from the Yangtze River Delta increased from 3.3% of our total contract sales to 24.2%. Revenue from property investment has also increased from RMB158.8 million to RMB287.3 million from 2008 to 2010, at a CAGR of 34.5%.

BASIS OF PRESENTATION OF OUR FINANCIAL STATEMENTS

Our Company was incorporated in the Cayman Islands on December 21, 2007. We underwent a reorganization in anticipation of our initial public offering in 2009, pursuant to which our Company became the holding company of the companies now comprising our Group on June 11, 2008. Our reorganization involved property development and property investment companies under common control, and our Group comprising the Company and its subsidiaries resulting from the reorganization is 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, 2008, or since the respective dates of

¹ Source: CRIC.

incorporation or establishment or acquisition, whichever is later. All significant intra-group transactions and balances between the companies now comprising our Group have been eliminated. However, the consolidated financial and operational data of our Group presented in this offering memorandum does not purport to be indicative of what our Group's actual financial and operational data would have been if our Group in its current structure had been in existence since January 1, 2008. In accordance with IFRS, 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. The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company and its major subsidiaries.

KEY FACTORS AFFECTING OUR PERFORMANCE

Our business, results of operations and financial condition are affected by a number of factors, many of which are beyond our control. See "Risk Factors." Some of the key factors include the following:

PRC Economic Condition

We believe that demand for purchase or rental of residential, retail, and office properties is driven by continued growth in the PRC's economy, population and urbanization. All of our revenues are generated from the PRC real estate market. The recent global economic slowdown and uncertainty in the global financial markets have had an adverse impact on the overall economy of China, including the PRC real estate market. Although we have sought to diversify our product spectrum and property base, economic uncertainty may affect the performance of the PRC real estate market — in particular the supply and demand for residential properties and pricing trends in the mid- to high-end property sector — and thereby have an impact on our business, financial condition and results of operations.

PRC Regulatory Environment

Our business, results of operations and financial condition are also affected by the regulatory and fiscal environment of the PRC, in particular, the regulatory and fiscal environment affecting the property development industry, including tax policies (e.g., the preferential income tax policy and LAT policies), land grant policies, pre-sale policies, policies on interest rates and the availability of mortgages and other macro-economic policies designed to slow down the growth of the PRC property market. From time to time, the PRC Government adjusts its macroeconomic control policies to encourage or restrict development in the private property sector through measures relating to, among other things, land grants, pre-sales of properties, bank financing and taxation. In recent years, the PRC Government has instituted a variety of measures designed to stabilize and dampen any potential over-heating of the real estate market, with a particular focus on the residential sector. These policies have led, and may continue to lead, to changes in market conditions, including changes in price stability, costs of ownership, costs of development and the balance of supply and demand in respect of residential properties. In response to the global economic crisis which intensified during the second half of 2008, the PRC Government implemented a stimulus plan and other measures which have resulted in a significant rise in the volume of bank loans. PRC regulators have expressed concern about excessive lending for real estate investments. Excessive development fueled by cheap credit could cause an oversupply of property leading to a significant market correction, which could adversely affect the sales volumes and selling prices of our projects. On the other hand, any efforts by bank regulators to curb excessive lending, if taken too far, might prevent developers including us from raising funds that we need to start new projects. PRC regulatory measures in the real estate industry will continue to impact our business and results of operations.

Ability to Acquire Suitable Land for Future Development

Our continuing growth will depend in large part on our ability to secure quality land at prices that can yield reasonable returns. Based on our current development plans, we expect to have sufficient land reserves for property development over the next several years. As the PRC economy continues to grow and demand for residential properties remains relatively strong, we expect that competition among developers for land reserves that are suitable for property development will continue. In addition, the public tender, auction and listing-for-sale practice in respect of the grant of state-owned land use rights is also likely to continue to encourage competition for development land and increase land acquisition costs as a result.

Access to Adequate Financing and Capital Resources

Bank and other borrowings are an important source of funding for our property developments. As of December 31, 2008, 2009 and 2010, our outstanding bank and other borrowings amounted to RMB12,839.8 million, RMB9,765.5 million and RMB17,324.4 million, respectively. As commercial banks in China link the interest rates on their bank loans to benchmark lending rates published by the PBOC, any increase in such benchmark lending rates will increase the interest costs related to our developments. Our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC Government on financing for property development. In addition to bank borrowings, we have also issued, through one of our PRC subsidiaries, the RMB Bonds and obtained a HK\$2.15 billion four year syndicated loan from a number of international and domestic banking institutions in Hong Kong. Our access to capital and cost of financing, therefore, are also dependent on our ability to access capital markets and the general economic environment. For further information, please see “Description of Other Material Indebtedness and Obligations.”

In addition, a substantial portion of our customers depend on mortgage financing to purchase our properties. Regulations or measures adopted by the PRC Government that restrict the ability of purchasers to obtain mortgages or increase the cost of mortgage financing may decrease market demand for our properties and adversely affect our revenue.

Pre-sales

Pre-sales of properties under development constitute one of the most important components of our cash flows from operating activities. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain requirements and requires us to use the pre-sale proceeds to develop the particular project that has been pre-sold. Although the pre-sales of properties generate positive cash flows for us in the period that they are made, no revenue is recognized in respect of such property until the relevant property is delivered to the purchaser. See “Business — Project Development — Financing.” The amount and timing of cash inflows from pre-sales are affected by a number of factors, including the development schedule of each of our projects, restrictions on pre-sales imposed by the PRC Government, market demand for our properties subject to pre-sales and the number of properties we have available for pre-sales. Reduced cash flow from pre-sales of our properties will likely increase our reliance on external financing which may increase our costs and may impact our ability to finance our property developments.

Timing of Property Development

Our results of operations tend to fluctuate from period to period. According to our accounting policy for revenue recognition, we recognize revenue from the sale of a property upon, among other things, the completion and delivery of the property to the purchaser, which is when we believe the significant risks and rewards of ownership are transferred to the purchaser. The

timing for the completion and delivery of a property is, however, subject to numerous factors, some of which are beyond our control. Any of these factors may therefore affect the recognition of revenue from sales of our properties and, as a result, our results of operations may vary significantly from period to period.

Periods in which we complete more GFA and more frequently deliver completed properties to purchasers will typically generate a higher level of revenue than periods in which, for example, we pre-sell a large aggregate GFA but such properties are not completed and delivered within the same period that the properties were pre-sold. The effect of the timing of project completion on our operational results is accentuated by the fact that we can only undertake a limited number of projects during any particular period due to the substantial capital requirements of land acquisitions and construction as well as the limited supply of land. Significant time is required for property developments and it may take many months or years before pre-sales of a property development can occur. In addition, as market demand may be volatile, revenue in a particular period can also depend on our ability to gauge the expected demand in the market at the expected launch time of a particular project, while delays in construction, regulatory approval processes and other factors can adversely affect the delivery of our projects.

Product Mix of Our Properties

We have in the past and intend in the future to retain mainly our mid- to large-scale shopping malls for recurring income, while we sell units of our residential properties, retail units and carpark spaces to individual purchasers. As a result, our results of operations and the sources and amount of our cash from operations may vary significantly from period to period depending on the location, type and GFA of our properties that we lease or sell and when our projects in various stages of development are to be completed. Our results of operations and cash flows will also vary depending on the market demand at the time we lease or sell our properties, the rental and occupancy rates of our investment properties and the selling prices for units in our residential properties, retail units and car park spaces. The recurring rental income from, the occupancy levels of, and the selling prices we receive from, our properties depend on local market prices which in turn depend on local supply and demand, as well as the type of property being developed and offered.

Price Volatility of Construction Materials

Our results of operations are affected by the price volatility of construction materials such as steel and cement. We procure some of the construction materials we use for our property development and, therefore, we are exposed to the price volatility of construction materials to the extent that we are not able to pass any increased costs onto our purchasers. Further, we typically pre-sell our properties prior to their completion and we will be unable to pass the increased costs onto our purchasers if construction costs increase subsequent to such pre-sale. See “— Certain Consolidated Statements of Comprehensive Income Items — Cost of Sales — Construction Costs.”

Valuation of Our Investment Properties

As of December 31, 2010, our investment properties include the North Paradise Walk Mall, Crystal Palace of Crystal Town, Fairy Castle Paradise Walk, West Paradise Walk and MOCO Center in Chongqing and Three Thousand Mall in Chengdu. Our investment properties are stated at their fair value on our consolidated statements of financial position as non-current assets as of each statement of financial position date on the basis of valuations by an independent property valuer. Gains or losses arising from changes in the fair value of our investment properties are accounted for as change in fair value of investment properties in our consolidated statements of comprehensive income, which may have a substantial effect on our profits. Property under construction or development for future use as an investment property is classified as investment property under development. If the fair value cannot be reliably determined, the investment property under development will be measured at cost until such time as fair value can be

determined or development is completed, at which time any difference between the fair value and the carrying amount will be recognized in profit or loss for that period. The property valuation involves the exercise of professional judgment and requires the use of certain bases and assumptions. The valuer typically uses the direct comparison approach by making reference to comparable sales transactions available in the relevant market and where appropriate, on the basis of the capitalization of the net rental income derived from the existing tenancies with due allowance for recurring income potential of the respective properties. The fair value of our investment properties may have been higher or lower if the valuer had used a different valuation methodology or if the valuation had been conducted by other qualified independent professional valuers using a different valuation methodology. In addition, upward revaluation adjustments reflecting unrealized capital gains on our investment properties as of the relevant statement of financial position dates are not profit generated from the sales or rentals of our investment properties and do not generate any cash inflow to us for potential interest payment to the holders of the Notes until such investment properties are disposed of at similarly revalued amounts. The amounts of revaluation adjustments have been, and may continue to be, significantly affected by the prevailing property markets and may decrease or increase. Although we have recorded fair value gains during the period from 2008 to 2010, there can be no assurance that we will continue to record similar levels of fair value gains in the future. See “Risk Factors – The valuation attached to our property interests contains assumptions that may or may not materialize.”

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those accounting policies that reflect significant judgments and uncertainties and that potentially yield materially different results under different assumptions and conditions. The critical accounting policies adopted and estimates made in preparation of our financial statements include the following:

Revenue Recognition

Revenue comprises primarily the fair value of the consideration recognized from property development, property investment and property management and related services. Revenue from the sale of properties in the ordinary course of business is recognized when the relevant properties are completed and delivered to the purchasers, which is when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to purchasers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties is retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Payments received on properties sold prior to the date of revenue recognition, including deposits and pre-sale proceeds, are included in the consolidated statements of financial position as accounts payable, deposits received and accrued charges and are presented as current liabilities. Revenue arising from property investment is recognized on a straight-line basis over the relevant lease period. Other revenue is recognized over the period when the related services are rendered.

Properties Under Development, Cost of Sales and Properties Held for Sales

We recognize the cost of property development for a given period to the extent that revenue from such properties has been recognized in such period. Prior to their completion, properties under development are included on our consolidated statements of financial position at cost, less any identified impairment losses.

Cost of property development includes construction costs, costs of land use rights and capitalized costs, which are allocated to each property based on the actual investment in each property. We make such estimates based on the information available at the time of completion of the relevant sales contracts, including the development plan and budget for the project.

When the leasehold land and buildings are in the course of development for production, for rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortized over a straight-line basis over the lease term. During the construction period, the amortization charge provided for the leasehold land is included as part of the costs of the properties under development.

Properties under development that are intended for sale are classified as current assets. Properties under development that are intended to be held for our own use or their investment potential are classified as non-current assets. Completed properties remaining unsold at the end of each financial period are stated at the lower of cost and net realizable value and classified as properties held for sale under current assets.

Income Tax Expense

Since January 2008, a uniform enterprise income tax rate of 25% has been applied towards both PRC domestic enterprises and foreign investment and foreign enterprises that have set up production and operation facilities in the PRC. However, some of our subsidiaries have been, and some of our subsidiaries will be, subject to income tax at lower tax rates than the general enterprise income tax rate due to their being eligible for a preferential tax rate. See “— Certain Consolidated Statements of Comprehensive Income Items — Income Tax Expense — PRC Enterprise Income Tax.”

Income tax expense represents the sum of the tax currently payable and deferred taxation.

Deferred taxation is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statements of financial position liability method. The realizability of the deferred taxation assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. The directors determine the deferred taxation assets based on the enacted or substantially enacted tax rates and laws and the best knowledge of profit projections of our business for coming years during which the deferred taxation assets are expected to be utilized.

The directors will review the assumptions and profit projections by the statements of financial position date. The carrying amount of deferred taxation assets is reviewed at each statements of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

We are subject to LAT in the PRC. The implementation and settlement of LAT varies among different tax jurisdictions in different cities of the PRC. Accordingly, significant judgment is required in determining the amount of land appreciation and its related income tax provisions. We have recognized LAT based on management’s best estimates. See “— Certain Consolidated

Statements of Comprehensive Income Items — Income Tax Expense — LAT.” The final tax outcome, however, could be different from the amounts that were initially recorded, and these differences could affect our income tax expense and the related income tax provisions in the periods in which such tax is finalized with local tax authorities.

Recognition of Share-based Payment Expenses

We adopted Pre-IPO Share Award Schemes, a Pre-IPO Share Option Scheme and Post-IPO Share Option Schemes. We engaged an independent appraiser to assist in determining the fair value of the Shares awarded and options granted. The determination of fair value was made after considering a number of factors, all of which are subject to uncertainty, including: our financial and operating results; the global economic outlook in general and the specific economic and competitive factors affecting our business; the nature and prospect of the PRC property market; our business plan and prospects; business risks we face; and market yields and return volatility of comparable corporate shares.

The total fair value of options granted is measured on the grant date based on the fair value of the underlying shares of our Company. In addition, our Group is required to estimate the expected percentage of grantees that will remain in the employment with our Group at the end of the vesting period. Our Group only recognizes an expense for those options expected to vest over the vesting period during which the grantees become unconditionally entitled to the options. At each relevant statement of financial position date, our Group revises its estimates of the number of options that are expected to ultimately vest. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such equity awards expected to vest, which may in turn significantly impact the determination of the share-based compensation expenses.

Investment Properties

Our investment properties are stated at fair value based on the valuation performed by independent property valuers. In determining fair value, the valuers have based this on a method of valuation that involves certain estimates of market conditions. In relying on the valuation report, our directors have exercised their judgment and are satisfied that assumptions used in the valuation reflect current market conditions. See “— Certain Consolidated Statements of Comprehensive Income Items — Change in Fair Value of Investment Properties.”

Capitalized Costs

See “— Certain Consolidated Statements of Comprehensive Income Items — Cost of Sales — Capitalized Costs.”

CERTAIN CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ITEMS

Revenue

We categorize our revenue into three segments, namely, property development (which represents proceeds collected from sales of properties completed and held for sale in that period and proceeds collected from our properties under development in previous periods if the properties are completed and delivered to purchasers in such period), property investment (which represents rental income from investment properties), and property management income and related services.

The following table sets forth revenue by business segments and their percentage of the total revenue for the periods indicated.

| | Year Ended December 31, | | | | | | |
|---|-------------------------|---------------|-------------------|---------------|-------------------|------------------|---------------|
| | 2008 | | 2009 | | 2010 | | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | US\$'000 | % |
| Property development . | 4,216,172 | 94.2% | 11,029,310 | 97.0% | 14,596,701 | 2,211,621 | 96.7% |
| Property investment . . | 158,785 | 3.6% | 197,975 | 1.7% | 287,281 | 43,528 | 1.9% |
| Property management and related services . | 100,242 | 2.2% | 146,677 | 1.3% | 209,140 | 31,688 | 1.4% |
| Total | <u>4,475,199</u> | <u>100.0%</u> | <u>11,373,962</u> | <u>100.0%</u> | <u>15,093,122</u> | <u>2,286,837</u> | <u>100.0%</u> |

During the three years ended December 31, 2010, we derived substantially all of our revenue from the property development segment. In the near future, we expect to continue to derive most of our revenue from the property development segment.

Property Development

Revenue from property development represents consideration recognized from sales of our properties completed and held for sale in that period if the properties are delivered to purchasers in such period. Revenue from property development is recognized when a binding sales contract has been executed and the properties have been delivered to purchasers.

Consistent with industry practice, we typically enter into sales contracts with purchasers while the properties are still under development and after satisfying the conditions for pre-sales in accordance with the PRC laws and regulations. See “Business — Project Development — Sales and Marketing.” Before the delivery of the properties, payments received from purchasers are recorded as deposits received and receipt in advance from property sales and are included in current liabilities. As of December 31, 2008, 2009 and 2010, our deposits received and receipt in advance from property sales amounted to RMB10,959.7 million, RMB13,341.0 million and RMB26,292.0 million, respectively. We recognize revenue from the pre-sales of our properties after the properties have been delivered to purchasers. See “— Critical Accounting Policies — Revenue Recognition.”

For 2008, 2009 and 2010, we recognized revenue from property development of RMB4,216.2 million, RMB11,029.3 million and RMB14,596.7 million, respectively, in connection with an aggregate GFA of 853,843 sq.m., 1,173,385 sq.m. and 1,800,149 sq.m., respectively, representing an average realized selling price (calculated as the revenue from the properties delivered divided by the aggregate recognized GFA sold) of RMB4,938 per sq.m., RMB9,400 per sq.m. and RMB8,109 per sq.m., respectively. We expect that our revenue from property development will increase over time as we expand our business.

Property Investment

Revenue from property investment represents recurring revenue from our investment properties, such as rental income, and is recognized on a straight-line basis over the relevant lease period. For 2008, 2009 and 2010, our revenue from property investment was RMB158.8 million, RMB198.0 million and RMB287.3 million, respectively.

Property management and related services

Revenue from property management and related services is recognized over the period when property management and related services are rendered. For 2008, 2009 and 2010, our revenue

from our property management and related services was RMB100.2 million, RMB146.7 million and RMB209.1 million, respectively. We expect that our revenue from property management and related services will increase over time due to the cumulative growth of our portfolio of residential and commercial properties under management.

Cost of Sales

Cost of sales primarily represents the costs we incur directly for our property development activities, which includes construction costs, costs of land use rights and capitalized costs.

We recognize the cost of property development for a given period to the extent that revenue from such properties have been recognized in such period. Prior to their completion, properties under development are included in our consolidated statements of financial position at cost, less any identified impairment losses.

Construction Costs

Construction costs include all of the costs for the design and construction of a project, including payments to third-party contractors and designers and costs of construction materials. Our construction costs are affected by a number of factors such as price fluctuations in construction materials (particularly steel and cement), the location and design of a property, the choice of materials and ancillary facilities.

Costs of Land Use Rights

Costs of land use rights include costs relating to the acquisition of the rights to occupy, use and develop land, and primarily represent land premiums incurred in connection with land grants from the government or land obtained in the secondary market by transfer, cooperative arrangement, corporate acquisition or otherwise. Our costs of land use rights are influenced by a number of factors, including the location of the property, the timing of the acquisition, and the projects' plot ratios. Costs of land use rights are also affected by our method of acquisition, whether by government-organized tenders, auctions or listings-for-sale, through private sale transactions and cooperative agreements with third parties in the secondary market or through the acquisition of other companies that hold land use rights. We may also be required to pay demolition and resettlement costs. Our costs of land use rights are also vulnerable to changes in PRC policies and regulations.

Capitalized Costs

Costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as a part of the cost of those assets, including a portion of the financing costs to fund the construction. Capitalization of such costs ceases when the assets are substantially ready for their intended use or sale.

Other Income

Other income primarily comprises interest income, interest income from investment in a trust fund, imputed interest income of amount due from a minority shareholder, consultancy fee income, dividend income from available-for-sale investments, gain on disposal of partial interest in a jointly controlled entity, excess compensation received from primary land development, government subsidies and sundry income.

Other Gains and Losses

Other gains and losses comprise gain on disposal of property, plant and equipment, net exchange gain, loss on disposal of subsidiary, bad debt recovery and reversal of impairment loss on other receivables.

Fair Value Gain upon Transfer to Investment Properties

Property under development or under planning as an investment property is classified as investment property under development. If the fair value cannot be reliably determined, the investment property under development will be measured at cost until such time as fair value can be determined or development is completed, in which time any difference between the fair value and the carrying amount will be recognized in profit or loss in that period. Properties under development and properties held for sales are transferred to investment properties under construction and completed investment properties when it is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount shall be recognized in profit or loss.

For 2010, the fair value gain upon transfer to investment properties was RMB777.0 million.

Change in Fair Value of Investment Properties

Gains or losses arising from changes in the fair values of investment properties are included in our consolidated statements of comprehensive income in the year in which they arise. Based on such valuation, we recognized the aggregate fair market value of our investment properties on our consolidated statements of financial position, recognized fair value gains or losses on investment properties on our consolidated statements of comprehensive income and recognized the relevant deferred tax under income tax expense on our consolidated statements of comprehensive income.

As of December 31, 2008, 2009 and 2010, the fair value of our investment properties was RMB3,759.1 million, RMB4,698.3million, RMB8,041.0 million, respectively. For 2008 and 2009, the net change in fair value of our investment properties was RMB125.1 million and RMB920.9 million, respectively. For 2010, the net change in fair value of our investment properties was RMB1,713.1 million. The fair value of each of our investment properties is likely to fluctuate from time to time and the fair value of our investment properties may decrease in the future. Any such decrease in the fair value of our investment properties would reduce our net profit.

Selling and Marketing Expenses

Selling and marketing expenses primarily include promotional expenses relating to sales and rentals of our properties (including advertisements in print media, on billboards and on television, promotional offers made directly to our customers and certain other promotional events, publicity and exhibitions), selling and marketing staff costs and other selling expenses. Our selling and marketing expenses in any period are affected by the number of newly introduced developments in that period.

Administrative Expenses

Administrative expenses primarily include salaries and benefits for our personnel including stock option expenses, service fees, consulting, auditing and legal expenses, travel expenses and general office expenses.

Share of Results of Jointly Controlled Entities

Share of results of jointly controlled entities represents our profit or loss after taxation that is attributable to our interest in jointly controlled entities pursuant to the joint venture agreements. For 2008, 2009 and 2010, we had six, seven and eight jointly controlled entities, respectively, namely, Longhu Land Limited, which was established in 2005, Chengdu Jia'nan Real Estate Company Limited, Chengdu Tuosheng Real Estate Company Limited, Chengdu Jinghui Real Estate

Company Limited and Chengdu Huixin Real Estate Company Limited, which were established in October 2007, and Shanghai Hengrui Real Estate Company Limited, which was established in 2008, Northpole Intermediary Limited became a jointly controlled entity in 2009 and Top Grand International Enterprise Limited became a jointly controlled entity in November 2009.

Income Tax Expense

Our income tax expense for a given year includes provisions made for PRC enterprise income tax and land appreciation tax, or LAT, during the year. For 2008, 2009 and 2010, our effective tax rate was 41.3%, 38.6% and 29.0%, respectively.

PRC Enterprise Income Tax

The PRC enterprise income tax accrued by our operating subsidiaries has been calculated at the applicable tax rate on the assessable profits for each period during the three years ended December 31, 2010. According to the PRC Enterprise Tax Law enacted by the National People's Congress on March 16, 2007, which became effective on January 1, 2008, a uniform income tax rate of 25% has been applied towards both PRC domestic enterprises and foreign investment and foreign enterprises that have set up production and operation facilities in the PRC. However, some of our subsidiaries have been, and some of our subsidiaries will be, subject to income tax at lower tax rates than the general enterprise income tax rate due to their being eligible for a preferential tax rate. Our PRC operating subsidiaries are also subject to local government taxation. Pursuant to the relevant PRC corporate income tax rules and regulations, preferential corporate income tax rates have been granted to certain of our PRC subsidiaries which were established in western China and engaged in the encouraged business. These companies were subject to a preferential rate of 15% from 2002 to 2010, subject to the approval from the relevant tax authority, if the annual income derived from the encouraged business is more than 70% of the annual total income.

In addition, a portion of our PRC enterprise income tax consists of deferred tax.

LAT

Under PRC laws and regulations, our PRC subsidiaries that are engaged in the property development business are subject to LAT as determined by the local authorities in the location in which each project is located. All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined in the relevant tax laws. Certain exemptions are available for the sale of ordinary residential properties if the appreciation values do not exceed 20% of the total deductible items (as defined in the relevant tax laws). Sales of commercial properties are not eligible for such an exemption. Whether a property qualifies for the ordinary residential property exemption is determined by the local government, taking into consideration the property's plot ratio, aggregate GFA and sales price. Sales of higher-end properties and commercial properties are generally assessed at higher appreciation values, and are therefore generally subject to higher LAT rates. On December 28, 2006, the PRC State Administration of Taxation issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises, which took effect on February 1, 2007. Such notice provides further clarifications as to the settlement of LAT. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situations. On May 12, 2009, the State Administration of Taxation issued the Administrative Rules on the Settlement of Land Appreciation Tax (土地增值稅清算管理規程) effective on June 1, 2009, which further clarifies the specific conditions and procedures for the settlement of LAT. In May 2010, the State Administration of Taxation issued the Circular on Settlement of Land Appreciation Tax (國家稅務總局關於土地增值稅清算有關問題的通知) to strengthen the settlement of LAT. The circular clarifies certain issues with respect to the calculation and settlement of LAT, such as (i) the recognition of the revenue upon the settlement of LAT; and (ii) the deduction of fees incurred in connection with the property development. In May 2010, the State Administration of Taxation

issued the Notice on Strengthening the Collection of Land Appreciation Tax (國家稅務總局關於加強土地增值稅徵管工作的通知), which requires that the minimum LAT prepayment rate shall be 2% for provinces in the eastern region of China, 1.5% for provinces in the central and northeastern regions, and 1% for provinces in the western region. According to the notice, the local tax bureaus shall determine the applicable LAT prepayment rates based on the property type. We estimate and make provisions for the full amount of applicable LAT in accordance with the requirements set forth in the relevant PRC tax laws and regulations, but only prepay 1.0% to 5.0% of the pre-sale proceeds from our property development each year as required by the local tax authorities under prevailing practice. For each of the three years ended December 31, 2008, 2009 and 2010, we made a provision for LAT in the amount of RMB55.5 million, RMB468.9 million and RMB999.6 million, respectively.

Hong Kong and Cayman Islands Tax

During the three years ended December 31, 2010, no provision for Hong Kong Profits Tax has been made. Based on the Cayman Islands' tax regulations, we are not subject to Cayman Islands income tax because we operate as an exempted company.

Non-controlling Interest

Our non-controlling interests mainly represents the 8.7% equity interest in Chongqing Longhu Development held by Chongqing Xuke.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth, for the periods indicated, certain items derived from our consolidated statements of comprehensive income.

| | Year Ended December 31, | | | |
|---|-------------------------|-------------|-------------|-------------|
| | 2008 | 2009 | 2010 | |
| | RMB'000 | RMB'000 | RMB'000 | US\$'000 |
| Revenue | 4,475,199 | 11,373,962 | 15,093,122 | 2,286,837 |
| Cost of sales | (3,321,192) | (8,042,326) | (9,995,934) | (1,514,535) |
| Gross profit | 1,154,007 | 3,331,636 | 5,097,188 | 772,302 |
| Other income | 132,068 | 421,188 | 91,531 | 13,868 |
| Other gains and losses | — | 13,990 | 34,652 | 5,250 |
| Fair value gain upon transfer to investment properties | — | — | 777,023 | 117,731 |
| Change in fair value of investment properties | 125,100 | 920,945 | 1,713,090 | 259,559 |
| Selling and marketing expenses | (323,910) | (314,119) | (327,880) | (49,679) |
| Administrative expenses | (408,286) | (421,099) | (433,488) | (65,680) |
| Finance costs | (61,525) | (27,499) | (66,677) | (10,103) |
| Share of results of jointly controlled entities | 63,225 | 135,998 | 183,035 | 27,733 |
| Profit before taxation | 680,679 | 4,061,040 | 7,068,474 | 1,070,981 |
| Income tax expense | (281,198) | (1,568,581) | (2,051,101) | (310,773) |
| Profit for the year and total comprehensive income for the year | 399,481 | 2,492,459 | 5,017,373 | 760,208 |
| Attributable to: | | | | |
| Owners of the Company | 331,590 | 2,209,207 | 4,130,155 | 625,781 |
| Non-controlling interest | 67,891 | 283,252 | 887,218 | 134,427 |
| Earnings per share, in RMB cents | | | | |
| Basic | 8.3 | 53.5 | 80.2 | 12.2 |
| Diluted | N/A | 53.2 | 79.8 | 12.1 |

2010 Compared to 2009

Revenue

Our revenue increased by 32.7% to RMB15,093.1 million in 2010 from RMB11,374.0 million in 2009, primarily due to an increase in revenue generated from property development.

- Property Development.** In year 2009 and 2010, revenue generated from property development accounted for respectively 97.0% and 96.7% of the total revenue. Revenue generated from property development increased by 32.3% to RMB14,596.7 million in 2010 from RMB11,029.3 million in 2009, primarily due to an increase in the total recognized GFA sold. Our average realized selling prices per sq.m. for the properties delivered decreased 13.7% to RMB8,109 in 2010 from RMB 9,400 in 2009, primarily due to the fact that we recognized revenue for Elegance Loft, a residential development project subject to size and price limits in accordance with affordable housing policies, in 2010.

The following table sets forth revenue generated, recognized GFA sold, and average realized selling prices for each listed for project in 2009 and 2010.

| Project | Revenue | | Recognized GFA Sold | | Average Realized Selling Price | |
|--|--------------------|-------------------|---------------------|------------------|--------------------------------|--------------|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| | (RMB in thousands) | | (sq.m.) | | (RMB per sq.m.) | |
| Beijing Rose and Ginkgo Villa | 2,848,099 | — | 107,708 | — | 26,443 | — |
| Chongqing Three Thousand Lane | 1,765,806 | 46,106 | 294,440 | 12,181 | 5,997 | 3,785 |
| Beijing Chianti | 1,588,681 | — | 147,033 | — | 10,805 | — |
| Chongqing Sunshine Riverside | 817,910 | 1,043,367 | 167,558 | 159,419 | 4,881 | 6,545 |
| Xi'an Qujiang Glory | 686,894 | 4,317 | 58,558 | 327 | 11,730 | 13,201 |
| Chongqing Peace Hill County | 683,675 | 940,795 | 77,578 | 167,447 | 8,813 | 5,618 |
| Chengdu Bridge County | 681,975 | 1,538,050 | 57,643 | 133,146 | 11,831 | 11,552 |
| Chongqing Chunsen Land | 648,525 | 118,981 | 85,660 | 15,840 | 7,571 | 7,511 |
| Beijing Blossom Chianti | 646,087 | 1,528,366 | 56,179 | 91,289 | 11,501 | 16,742 |
| Chongqing Wisdom Town | 457,715 | 370,973 | 73,834 | 71,286 | 6,199 | 7,980 |
| Beijing Elegance Loft | — | 2,121,082 | — | 468,480 | — | 4,528 |
| Chengdu Three Thousand Castles | — | 2,097,694 | — | 246,982 | — | 8,493 |
| Chongqing Toschna Villa | — | 1,310,829 | — | 139,459 | — | 9,399 |
| Shanghai Sunshine City | — | 1,249,760 | — | 53,711 | — | 23,268 |
| Beijing Summer Palace Splendor | — | 1,077,389 | — | 19,791 | — | 54,438 |
| Chongqing MOCO Center | — | 522,796 | — | 97,487 | — | 5,363 |
| Chengdu Flamenco Spain | — | 388,787 | — | 68,951 | — | 5,639 |
| Others | 203,943 | 237,410 | 47,194 | 54,353 | 4,321 | 4,368 |
| Total | <u>11,029,310</u> | <u>14,596,701</u> | <u>1,173,385</u> | <u>1,800,149</u> | <u>9,400</u> | <u>8,109</u> |

- *Property Investment.* In year 2009 and 2010, revenue generated from property investment accounted for respectively 1.7% and 1.9% of the total revenue. Revenue generated from property investment increased by 45.1% to RMB287.3 million in 2010 from RMB198.0 million in 2009, primarily due to an increase in rental income from North Paradise Walk Mall as a result of improved tenant mix and the commencement of operation of MOCO Center and Three Thousand Mall in 2010.
- *Property management and related services.* In year 2009 and 2010, revenue generated from property management and related services accounted for respectively 1.3% and 1.4% of the total revenue. Revenue generated from property management and related services increased by 42.5% to RMB209.1 million in 2010 from RMB146.7 million in 2009, primarily due to an increase in the number of properties under management.

Cost of Sales

Cost of sales increased by 24.3% to RMB 9,995.9 million in 2010 from RMB8,042.3 million in 2009, slower than the growth rate of 53.4% of recognized GFA sold. This is because our average recognized land cost decreased in 2010 as we delivered more high-density properties.

Gross Profit

As a result of foregoing factors, gross profit increased by 53.0% to RMB5,097.2 million in 2010 from RMB3,331.6 million in 2009. Our gross profit margin increased to 33.8% in 2010 from 29.3% in 2009.

Other Income

Other income decreased by 78.3% to RMB91.5 million in 2010 from RMB421.2 million in 2009. This decrease was primarily due to the fact that we had a non-recurring excess compensation received from a primary development project of approximately RMB306.0 million in 2009.

Fair Value Gain upon Transfer to Investment Properties

Fair value gain upon transfer to investment properties was RMB777.0 million in 2010, primary due to amendments to IFRS. Please see “— Certain Consolidated Statement of Comprehensive Income Item — Fair Value Gain upon Transfer to Investment Properties” for detailed explanation.

Change in Fair Value of Investment Properties

Change in fair value of investment properties increased by 86.0% to RMB1,713.1 million in 2010 from RMB920.9 million in 2009, primarily due to the appreciation in value of our investment properties. Please see “— Certain Consolidated Statement of Comprehensive Income Item — Change in Fair Value of Investment Properties” for detailed explanation.

Selling and Marketing Expenses

Selling and marketing expenses increased by 4.4% to RMB327.9 million in 2010 from RMB314.1 million in 2009, due to increased selling and marketing staff costs which was in turn offset by a decrease in promotional cost. Our selling and marketing expenses were relatively stable in 2010 compared to 2009 despite an approximately 81.5% increase in contract sales, reflecting our effective cost control.

Administrative Expenses

Administrative expenses increased by 2.9% to RMB433.5 million in 2010 from RMB421.1 million in 2009, primarily due to an increase in headcount and salaries and benefits for our personnel largely offset by a decrease in other administrative expenses.

Finance Costs

Finance costs increased by 142.5% to RMB66.7 million in 2010 from RMB27.5 million in 2009 primarily due to the increase in working capital loans.

Share of Results of Jointly Controlled Entities

In 2010, the share of results of jointly controlled entities increased by 34.6% to RMB183.0 million in 2010 from RMB136.0 million in 2009, primarily due to an increase in the profits of Shanghai Hengrui Real Estate Company Limited, the developer of the Shanghai Rose and Ginkgo Villa project, and Longhu Land Limited, the developer of the Chongqing Bamboo Grove project.

Profit Before Taxation

As a result of the foregoing, profit before taxation increased by 74.1% to RMB7,068.5 million in 2010 from RMB4,061.0 million in 2009.

Income Tax Expense

Income tax expense increased by 30.8% to RMB2,051.1 million in 2010 from RMB1,568.6 million in 2009 primarily due to increased PRC enterprise income tax and the LAT payable based on increased profits.

Profit for the Year

Profit for the year increased by 101.3% to RMB5,017.4 million in 2010 from RMB2,492.5 million in 2009 primarily due to an increase in gross profit margin, fair value gain upon transfer to investment properties, change in fair value of investment properties and effective control of operating expenses. Profit margin in 2010 increased to 33.2% from 21.9% in 2009 as a result of the cumulative effect of the foregoing factors.

2009 Compared to 2008

Revenue

Our revenue increased by 154.2% to RMB11,374.0 million in 2009 from RMB4,475.2 million in 2008, primarily due to an increase in revenue generated from property development.

- *Property Development.* In year 2008 and 2009, revenue generated from property development accounted for respectively 94.2% and 97.0% of the total revenue. Revenue generated from property development increased by 161.6% to RMB11,029.3 million in 2009 from RMB4,216.2 million in 2008, primarily due to an increase in the average realized selling prices of the properties we sold and, to a lesser extent, an increase in the recognized GFA sold. Our average realized selling prices per sq.m. for the properties we sold increased by 90.4% to RMB9,400 in 2009 from RMB4,938 in 2008, primarily because we generate a higher percentage of revenue from sales of properties of Beijing Rose and Ginkgo Villa, Beijing Chianti, Qujiang Glory, Bridge Country and Blossom Chianti projects, which commanded higher average realized selling prices.

The following table sets forth revenue generated, recognized GFA sold, and average realized selling prices for each listed project in 2008 and 2009.

| Project | Revenue | | Recognized GFA Sold | | Average Realized Selling Price | |
|--|--------------------|-------------------|---------------------|------------------|--------------------------------|--------------|
| | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 |
| | (RMB in thousands) | | (sq.m.) | | (RMB per sq.m.) | |
| Chengdu Charming Port. | 1,399,312 | 44,250 | 263,374 | 8,186 | 5,313 | 5,406 |
| Chengdu King Land | 897,608 | 53,937 | 159,447 | 9,532 | 5,630 | 5,659 |
| Blue Lake County. | 729,276 | 16,876 | 123,340 | 3,480 | 5,913 | 4,849 |
| Chongqing Fairy Castle | 364,911 | 1,436 | 101,162 | 563 | 3,607 | 2,551 |
| West Paradise Walk. | 347,344 | 16,223 | 77,388 | 2,985 | 4,488 | 5,435 |
| River View | 332,520 | 6,950 | 87,904 | 2,823 | 3,783 | 2,462 |
| Beijing Rose and Ginkgo Villa | — | 2,848,099 | — | 107,708 | — | 26,443 |
| Chongqing Three Thousand Lane | — | 1,765,806 | — | 294,440 | — | 5,997 |
| Beijing Chianti | — | 1,588,681 | — | 147,033 | — | 10,805 |
| Chongqing Sunshine Riverside | — | 817,910 | — | 167,558 | — | 4,881 |
| Xi'an Qujiang Glory | — | 686,894 | — | 58,558 | — | 11,730 |
| Chongqing Peace Hill County. | — | 683,675 | — | 77,578 | — | 8,813 |
| Chengdu Bridge County. | — | 681,975 | — | 57,643 | — | 11,831 |
| Chongqing Chunsen Land | — | 648,525 | — | 85,660 | — | 7,571 |
| Beijing Blossom Chianti | — | 646,087 | — | 56,179 | — | 11,501 |
| Chongqing Wisdom Town. | — | 457,715 | — | 73,834 | — | 6,199 |
| Others | 145,201 | 64,271 | 41,228 | 19,625 | 3,520 | 3,275 |
| Total. | <u>4,216,172</u> | <u>11,029,310</u> | <u>853,843</u> | <u>1,173,385</u> | <u>4,938</u> | <u>9,400</u> |

- *Property Investment.* In year 2008 and 2009, revenue generated from property investment accounted for respectively 3.6% and 1.7% of the total revenue. Revenue generated from property investment increased by 24.7% to RMB198.0 million in 2009 from RMB158.8 million in 2008, primarily due to an increase in average rent.
- *Property management and related services.* In year 2008 and 2009, revenue generated from property management and related services accounted for respectively 2.2% and 1.3% of the total revenue. Revenue generated from property management and related services increased by 46.4% to RMB146.7 million in 2009 from RMB100.2 million in 2008, primarily due to an increase in the number of properties under management.

Cost of Sales

Cost of sales increased by 142.2% to RMB 8,042.3 million in 2009 from RMB3,321.2 million in 2008, primarily due to an increase in cost of property development in line with our revenue increase.

Gross Profit

Gross profit increased by 188.7% to RMB 3,331.6 million in 2009 from RMB1,154.0 million in 2008. Our gross profit margin increased to 29.3% in 2009 from 25.8% in 2008. The increase in our gross profit margin was primarily due to an increase in average realized selling price.

Other Income

Other income increased by 218.8% to RMB421.2 million in 2009 from RMB132.1 million in 2008. This increase was primarily due to the non-recurring excess compensation of RMB306.0 million received from primary development project.

Change in Fair Value of Investment Properties

Fair value gains on investment properties increased by 636.1% to RMB920.9 million in 2009 from RMB125.1 million in 2008, primarily because of property value appreciation.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 3.0% to RMB314.1 million in 2009 from RMB323.9 million in 2008. This decrease was primarily due to effective expense control.

Administrative Expenses

Administrative expenses increased by 3.1% to RMB421.1 million in 2009 from RMB408.3 million in 2008 in spite of a 154.2% increase in revenue during the same period due to implementation of stringent expenses control measures including, amongst other things, introducing an on-line expenses tracking system.

Finance Costs

Finance costs decreased by 55.3% to RMB27.5 million in 2009 from RMB61.5 million in 2008, primarily due to a decrease in total borrowings and average interest cost in 2009.

Share of Results of Jointly Controlled Entities

In 2009, the share of profits of jointly controlled entities was RMB136.0 million, primarily coming from Longhu Land Limited, the developer of Chongqing Bamboo Grove.

Profit Before Taxation

As a result of the foregoing factors, profit before taxation increased by 496.6% to RMB4,061.0 million in 2009 from RMB680.7 million in 2008.

Income Tax Expense

Income tax expense increased by 457.8% to RMB1,568.6 million in 2009 from RMB281.2 million in 2008 due to a 496.6% increase in profit before taxation.

Profit for the Year

Profit for the year increased by 523.9% to RMB2,492.5 million in 2009 from RMB399.5 million in 2008. Profit margin in 2009 increased to 21.9% from 8.9% in 2008 as a result of the cumulative effects of the foregoing factors.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our working capital, capital expenditures and other capital requirements primarily through internal funds, borrowings from banks, the issuance of the RMB Bonds, capital contributions from shareholders, proceeds raised from capital markets and proceeds from sales and pre-sales of our developed properties.

Net Current Assets

As of December 31, 2010, we had net current assets of approximately RMB10,146.5 million, which increased from RMB6,419.6 million as of December 31, 2009, primarily due to an increase in properties under development for sales, property held for sales, increase in accounts and other receivables, deposits and prepayments and increased level of bank balance and cash, partially offset by the increase in accounts payable, deposits received and accrued charges. Our Group's current assets were comprised of properties under development of RMB31,590.6 million, bank balances and cash of RMB9,863.1million, accounts and other receivables, deposits and prepayments of RMB2,516.3 million, properties held for sales of RMB3,004.1 million, pledged bank deposits of RMB499.4 million, inventories of RMB415.9 million and amounts due from jointly controlled entities of RMB7.4 million. As of December 31, 2010, our current liabilities comprised accounts payable, deposits received and accrued charges of RMB31,474.9 million, bank and other borrowings due within one year of RMB2,859.9 million, taxation payable of RMB2,635.2 million and amounts due to jointly controlled entities of RMB1,319.5 million.

Cash Flows

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

| | Year Ended December 31, | | | |
|---|-------------------------|-------------|--------------|-------------|
| | 2008 | 2009 | 2010 | |
| | RMB'000 | RMB'000 | RMB'000 | US\$'000 |
| Net cash (used in) from operating activities . . . | (36,692) | 5,845,792 | 8,477,842 | 1,284,522 |
| Net cash (used in) from investing activities. . . . | (3,077,581) | (5,378,880) | (12,090,666) | (1,831,919) |
| Net cash from (used in) financing activities . . . | 4,005,452 | 3,105,864 | 6,674,383 | 1,011,270 |
| Net increase in cash and cash equivalents | 891,179 | 3,572,776 | 3,061,559 | 463,873 |
| Cash and cash equivalents at the beginning | | | | |
| of the year | 2,337,618 | 3,228,797 | 6,801,573 | 1,030,541 |
| Cash and cash equivalents at the end of the | | | | |
| year | 3,228,797 | 6,801,573 | 9,863,132 | 1,494,414 |

Cash Flows from Operating Activities

Our cash used in operations principally comprises amounts we invest in our properties under development. Our cash from operations is generated principally from the proceeds from sales of our properties, including pre-sales of properties under development.

In 2010, we had net cash inflow from operating activities of RMB8,477.8 million, primarily due to an increase in accounts payable, deposits received and accrued charges of RMB15,017.2 million, partially offset by an increase in properties under development and properties held for sale of RMB8,688.2 million.

In 2009, we had net cash inflow from operating activities of RMB5,845.8 million, primarily due to an increase in accounts payable, deposits received and accrued charges of RMB2,271.5 million.

In 2008, we had net cash outflow from operating activities of RMB36.7 million, primarily due to an increase in properties under development and properties held for sales of RMB4,590.8 million, partially offset by an increase in accounts payable, deposits received and accrued charges of RMB4,697.6 million.

Cash Flows from Investing Activities

In 2010, we had net cash outflow from investing activities of RMB12,090.7 million, primarily due to additions to prepaid lease payments of RMB8,311.4 million and deposits paid for acquisition of land use rights of RMB3,447.9 million.

In 2009, we had net cash outflow from investing activities of RMB5,378.9 million, primarily due to additions to prepaid lease payments of RMB1,411.1 million, deposits paid for acquisition of land use rights of RMB3,212.8 million and acquisition of a jointly controlled entity of RMB1,037.0 million, partially offset by compensation received from primary development project of RMB1,100.0 million.

In 2008, we had net cash outflow from investing activities of RMB3,077.6 million, primarily due to additions to the prepaid lease payments of RMB2,232.9 million and acquisition of additional interest in subsidiaries of RMB508.6 million.

Cash Flows from Financing Activities

In 2010, we had net cash inflow from financing activities of RMB6,674.4 million, primarily due to an increase in new bank loans of RMB12,588.4 million, partially offset by repayment of bank loans of RMB5,031.4 million.

In 2009, we had net cash inflow from financing activities of RMB3,105.9 million, primarily due to net proceeds of RMB6,841.8 million received from issue of shares and new bank loans raised of RMB4,609.6 million, partially offset by repayment of bank loans of RMB9,250.1 million.

In 2008, we had net cash inflow from financing activities of RMB4,005.5 million primarily due to new bank loans raised in the amount of RMB8,592.2 million, partially offset by the repayment of bank loans of RMB3,680.9 million.

Capital Resources

Property developments require substantial capital investment for land acquisitions and construction and it may take many months or years before positive cash flows can be generated. We have funded our growth principally from internal funds, borrowings from banks, the issuance of the RMB Bonds, capital contributions from shareholders, proceeds from our initial public offering in 2009 and proceeds from sales and pre-sales of our properties.

We intend to continue to fund our future development and debt servicing costs from existing financial resources and cash flows from operating activities. We may also raise additional funds through debt or equity offerings or sales or other dispositions of assets in the future to finance all or a portion of our future development, for debt servicing or for other purposes. Our ability to obtain adequate financing to satisfy our debt servicing requirements may be limited by our financial condition and results of operations and the liquidity of international and domestic financial markets. Any failure by us to achieve timely rollover, extension or refinancing of our short-term debt may result in our inability to meet our obligations in connection with debt

servicing, accounts payable and/or other liabilities when they become due and payable. See “Risk Factors — Risks Relating to Our Business — Our business is capital intensive and our business nature may expose us to unstable and unpredictable cash flow. We may not be able to obtain sufficient funding for our business expansion.”

Restricted Cash

Our restricted cash consists of pledged bank deposits either to secure the banking facilities granted to us or restricted for mortgage sales of property. As of December 31, 2008, 2009 and 2010, such deposits amounted to approximately RMB605.4 million, RMB496.2 million and RMB499.4 million, respectively. The deposits had fixed interest rates of 0.72% per annum for 2008, 0.36% per annum for 2009 and 0.36% per annum for 2010.

Indebtedness

Bank and Other Borrowings

At the close of business on December 31, 2010, we had total bank and other borrowings of RMB17,324.4 million.

As of December 31, 2010, our bank borrowings were secured by certain investment properties, prepaid lease payments, properties under development, properties held for sale, and pledged bank deposits. See “— Liquidity and Capital Resources — Restricted Cash.”

| | As of December 31, | | | |
|---|--------------------------|-------------------------|--------------------------|-------------------------|
| | 2008 | 2009 | 2010 | |
| | RMB'000 | RMB'000 | RMB'000 | US\$'000 |
| Bank loans, secured. | 10,448,051 | 5,810,000 | 7,614,700 | 1,153,742 |
| Bank loans, unsecured. | 2,312,700 | 2,240,310 | 7,765,665 | 1,176,616 |
| Other loan, secured. | — | — | 246,000 | 37,273 |
| Other loan, unsecured. | 79,000 | 329,000 | 310,000 | 46,970 |
| Bonds, secured. | — | 1,386,195 | 1,387,994 | 210,302 |
| Total bank and other borrowings. | <u>12,839,751</u> | <u>9,765,505</u> | <u>17,324,359</u> | <u>2,624,903</u> |

Our bank and other borrowings due within one year as of December 31, 2010 decreased to RMB2,859.9 million as compared to RMB3,710.2 million as of December 31, 2009. The following table shows the maturity of our bank and other borrowings as of the date indicated:

| | As of December 31, | | | |
|---|--------------------------|-------------------------|--------------------------|-------------------------|
| | 2008 | 2009 | 2010 | |
| | RMB'000 | RMB'000 | RMB'000 | US\$'000 |
| Within one year or on demand. | 6,480,051 | 3,710,200 | 2,859,870 | 433,314 |
| More than one year, but not exceeding two years. | 5,279,700 | 1,868,750 | 4,567,603 | 692,061 |
| More than two years, but not exceeding three years. | 1,080,000 | 2,800,360 | 7,221,174 | 1,094,117 |
| More than three years, but not exceeding four years. | — | — | 957,718 | 145,109 |
| Exceeding five years. | — | 1,386,195 | 1,717,994 | 260,302 |
| Total. | <u>12,839,751</u> | <u>9,765,505</u> | <u>17,324,359</u> | <u>2,624,903</u> |

On May 5, 2009, Chongqing Longhu Development issued bonds in an aggregate principal amount of RMB1.4 billion that are due in 2016. A portion of such bonds are listed and traded on the Shanghai Stock Exchange. The RMB Bonds have been secured by certain of our properties and land use rights. The proceeds from the issuance of the RMB Bonds were primarily used to finance our projects in Chongqing and Chengdu. For further details on the RMB Bonds, see “Description of Material Indebtedness and Other Obligations.”

Interest rates for the bank loans are at fixed and variable rates. The fixed rate borrowings carry interest at market rates. The interest rates for the remaining borrowings are at variable rates based on the interest rates quoted by the People’s Bank of China.

The following table shows our bank and other borrowings by currency:

| | As of December 31, | | | |
|------------------------------|--------------------|------------------|-------------------|------------------|
| | 2008 | 2009 | 2010 | |
| | RMB’000 | RMB’000 | RMB’000 | US\$’000 |
| Denominated in RMB | 10,884,550 | 8,691,295 | 14,666,684 | 2,222,225 |
| Denominated in HK\$. | 1,955,201 | 1,074,210 | 2,657,675 | 402,678 |
| Total | 12,839,751 | 9,765,505 | 17,324,359 | 2,624,903 |

As of December 31, 2010, we had aggregate bank facilities of approximately RMB41 billion, from CCB, ABC and ICBC, RMB29 billion of which remained undrawn.

Except as disclosed in this offering memorandum, 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 December 31, 2010.

Contingent Liabilities

Our contingent liabilities comprise mortgage guarantees. We provided mortgage guarantees to PRC banks in respect of the mortgage loans provided by the PRC banks to purchasers of the properties we developed and sold. Our mortgage guarantees are issued from the dates of grant of the relevant mortgage loans and released upon the registration of the relevant mortgages in favor of the PRC banks.

The following table shows our total contingent liabilities as of the date indicated:

| | As of December 31, | | | |
|-------------------------------|--------------------|------------------|------------------|----------------|
| | 2008 | 2009 | 2010 | |
| | RMB’000 | RMB’000 | RMB’000 | US\$’000 |
| Mortgage guarantees | 2,204,667 | 2,686,846 | 5,204,923 | 788,625 |
| Total | 2,204,667 | 2,686,846 | 5,204,923 | 788,625 |

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 have not entered into any derivative contracts that are not reflected in our consolidated financial statements. We do not have any variable interests 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.

Contractual Obligations

As of December 31, 2010, our contractual obligations in connection with our property development activities amounted to RMB15,090.2 million, primarily arising from contracted construction fees or other capital commitments for future property developments. The following table sets forth our contractual obligations as of December 31, 2010.

| | <u>Payments due by period</u> |
|---|-------------------------------|
| | <u>(RMB in thousands)</u> |
| | <u>Total</u> |
| Operating lease arrangements | |
| Within one year | 14,583 |
| In the second to fifth year inclusive | 33,370 |
| After five years | 3,873 |
| Other commitments contracted but not provided for in the consolidated financial statements: | |
| Expenditure in respect of properties under development | 7,749,357 |
| Expenditure in respect of acquisition of land use rights | 7,288,986 |
| Total | <u>15,090,169</u> |

MARKET RISK

Interest Rate Risk

Our business is sensitive to fluctuations in interest rates. As a portion of our long-term indebtedness is under loan agreements with variable interest rates, any increase in interest rates will increase our cost of financing. We currently do not hedge our interest rate risk but may do so in the future.

An increase in interest rates would also adversely affect our prospective purchasers' ability to obtain financing and depress overall housing demand. Higher interest rates may adversely affect our revenue, gross profits and net profits. The PBOC published benchmark one-year lending rates in China (which directly affect the property mortgage rates offered by commercial banks in the PRC) as of December 31, 2008, 2009 and 2010 were 5.31%, 5.31%, 5.81%, respectively. We cannot assure you that the PBOC will not further raise lending rates or that our business, financial condition and results of operations will not be adversely affected as a result of these adjustments.

Foreign Exchange Rate Risk

We conduct our business primarily in Renminbi. On July 21, 2005, the PRC Government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the Renminbi against the US dollar recently. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates. A depreciation of the Renminbi would adversely affect the value of any dividends we pay to investors outside the PRC and would also result in an increase in the price of goods with imported content which we source from our suppliers. An appreciation of the Renminbi, however, would adversely affect the value of proceeds we receive from the Notes offering if they are not converted into Renminbi in a timely manner. In addition, we undertake certain transactions denominated in foreign currency, and as of December 31, 2010, we had RMB69.0 million and RMB361.2 million worth of assets in U.S. dollars and HK dollars, respectively, and RMB2,657.7 million worth of liabilities in HK dollars. Any appreciation or depreciation of the Renminbi against either of these currencies would affect the value of these assets and liabilities. We currently do not engage in hedging activities designed or intended to manage such currency risk. See also “Risk Factors — Risks Relating to the Notes — Fluctuation in the value of RMB may have a material adverse effect on our business and on your investment.”

Commodities Risk

We are exposed to fluctuations in the prices of raw materials for our property developments, primarily steel and cement. We do not engage in any hedging activities. Purchasing costs of steel and cement are generally accounted for a part of the construction contractor fees pursuant to our arrangements with the relevant construction contractors. Accordingly, rising prices for construction materials will affect our construction costs in the form of increased fee quotes by our construction contractors. As a result, fluctuations in the prices of our construction materials have a significant impact on our results of operations.

Inflation and Deflation

According to the China Statistical Bureau, China’s overall national inflation rate, as represented by the general consumer price index, was approximately 5.9%, -0.7% and 3.3% in 2008, 2009 and 2010, respectively. As of the date of this prospectus, we have not been materially affected by any inflation or deflation. We cannot assure you that the inflation rate in the PRC will decrease or increase in the future. We cannot predict the impact that a sustained increase in inflation will have on our business, financial conditions, results of operations or prospects.

Equity Price Risk

We are exposed to equity price risks arising from equity investments. These equity investments are held for strategic rather than trading purposes, and we do not actively trade these investments.

NON-GAAP FINANCIAL MEASURES

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our earnings before the following items:

- interest income/expense;
- amortization of intangible assets;
- non-operating income/expense;
- income tax expense; and
- depreciation.

EBITDA is not a standard measure under IFRS. As the property development business is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit for the year/period of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable IFRS measure to EBITDA is profit for the year/period. We use EBITDA in addition to profit for the year/period because profit for the year/period includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of intangible assets and interest income and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, intangible assets amortization and interest income and expense, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit for the year/period under IFRS to our definition of EBITDA for the periods indicated.

| | Year Ended December 31, | | | |
|--|-------------------------|------------------|------------------|----------------|
| | 2008 | 2009 | 2010 | |
| | RMB '000 | RMB '000 | RMB '000 | US\$'000 |
| Profit before tax | 680,679 | 4,061,040 | 7,068,474 | 1,070,981 |
| Adjustment: | | | | |
| Fair value (gains)/losses on investment properties | (125,100) | (920,945) | (1,713,090) | (259,559) |
| Fair value gain upon transfer to investment properties | — | — | (777,023) | (117,731) |
| Other income | (132,068) | (421,188) | (91,531) | (13,868) |
| Other gain and loss | — | (13,990) | (34,652) | (5,250) |
| Share of results of jointly controlled entities | (63,225) | (135,998) | (183,035) | (27,733) |
| Finance costs | 61,525 | 27,499 | 66,677 | 10,103 |
| Depreciation and Amortization | 16,884 | 21,863 | 24,019 | 3,639 |
| EBITDA | 438,695 | 2,618,281 | 4,359,839 | 660,582 |

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year/period or as an indicator of operating performance or any other standard measure under IFRS. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized. See the sections entitled “Description of the Notes — Definitions” for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

INDUSTRY OVERVIEW

Unless otherwise specified, the information set forth in this section has been extracted, in part, from various official government publications. Such information has not been independently verified by us, the Initial Purchasers, or any of our and their affiliates or advisors. The information may be inaccurate, incomplete, out-of-date or inconsistent with other information compiled within or outside the PRC.

MACRO-ECONOMIC ENVIRONMENT IN THE PRC

The PRC economy has achieved substantial growth since the PRC government introduced economic reforms and adopted an open door policy in the late 1970s. Such growth was further accelerated by the country's accession to the World Trade Organization in 2001 as a result of increasing inflow of foreign investment across all sectors of the economy. Between 2005 and 2009, China's nominal Gross Domestic Product ("GDP") increased from approximately RMB18,493.7 billion in 2005 to approximately RMB34,050.7 billion in 2009.

The table below sets forth selected economic statistics of China for the years indicated.

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|----------|----------|----------|----------|----------|
| Nominal GDP (RMB billion) | 18,493.7 | 21,631.4 | 26,581.0 | 31,404.5 | 34,050.7 |
| Real GDP growth rate (%) | 11.3 | 12.7 | 14.2 | 9.6 | 9.1 |
| Per capita GDP (RMB) | 14,185 | 16,500 | 19,169 | 23,708 | 25,575 |
| Fixed asset investment (RMB billion) | 8,877.4 | 10,999.8 | 13,732.4 | 17,282.8 | 22,484.6 |

Source: National Bureau of Statistics of China

PRC PROPERTY MARKET OVERVIEW

Growth of the property market in the PRC

The favorable economic environment in the PRC has fueled the growth of the PRC property market. From 2005 to 2009, investment in real estate development in residential properties grew at a CAGR of 23.9%, increasing from RMB1,086.1 billion in 2005 to RMB2,561.4 billion in 2009. According to the National Bureau of Statistics, a total of approximately 861.8 million sq.m. of residential GFA was sold in 2009, representing a substantial increase as compared to the approximately 495.9 million sq.m. sold in 2005. During the same period, total GFA of commodity properties sold increased from approximately 554.9 million sq.m. to approximately 947.6 million sq.m.

Prices for real estate in the PRC also experienced remarkable growth between 2005 and 2009, with average selling prices of residential properties growing at a CAGR of 11.0% over the same period, increasing from RMB2,937 per sq.m. in 2005 to RMB4,459 per sq.m. in 2009. The average selling price of all commodity properties increased from RMB3,168 to RMB4,681 during the same period.

As a result of the above two factors, the PRC property industry witnessed significant growth in revenue from the sale of properties, with the total real estate sales revenue leaping from RMB1,757.6 billion in 2005 to RMB4,399.0 billion in 2009.

The table below sets forth selected data relating to the PRC property market for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|---------|---------|---------|---------|---------|
| Real estate investment (RMB billion) | 1,590.9 | 1,942.3 | 2,528.9 | 3,120.3 | 3,624.2 |
| Total GFA of commodity properties sold (million sq.m.) | 554.9 | 618.6 | 773.5 | 620.9 | 947.6 |
| Total GFA of residential properties sold (million sq.m.) | 495.9 | 554.2 | 701.4 | 558.9 | 861.8 |
| Investment in real estate development in residential properties (RMB billion) | 1,086.1 | 1,363.8 | 1,800.5 | 2,244.1 | 2,561.4 |
| Average price of commodity properties (RMB per sq.m.) | 3,168 | 3,367 | 3,864 | 3,800 | 4,681 |
| Average price of residential properties (RMB per sq.m.) | 2,937 | 3,119 | 3,645 | 3,576 | 4,459 |
| Revenue from sales of properties (RMB billion) | 1,757.6 | 2,082.6 | 2,988.9 | 2,507.1 | 4,399.0 |

Sources: National Bureau of Statistics of China

Key drivers of the PRC property market

In addition to the strong sustainable growth of the PRC economy which has resulted in rising disposable income for the PRC population, rapid urbanization and certain real estate market reforms undertaken by the central government have been key contributors to the growing demand in the PRC property sector.

Urbanization

In recent years, the pace of urbanization in the PRC has been rapid. Urbanization rates rose from 43.0% in 2005 to 46.6% in 2009. Per capita disposable income of urban household also dramatically increased from RMB10,493 in 2005 to RMB17,175 in 2009. The China National Bureau of Statistics estimates that the PRC's urbanization rates will reach 50% by 2020 and 70% by 2050. Should these rates materialize, demand for urban properties is expected to rise further. The table below sets forth selected data relating to urbanization trends in the PRC for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|--------|--------|--------|--------|--------|
| Urban population (in millions) | 562 | 577 | 594 | 607 | 622 |
| Total population (in millions) | 1,308 | 1,314 | 1,321 | 1,328 | 1,355 |
| Urbanization rate (%) | 43.0 | 43.9 | 44.9 | 45.7 | 46.6 |
| Per capita disposable income of urban households (RMB) | 10,493 | 11,760 | 13,786 | 15,781 | 17,175 |

Source: National Bureau of Statistics of China

Real estate market reforms and government policies

Growth of the property market has been promoted and made possible by a series of reforms in the PRC real estate industry, which only commenced in the 1990s. Prior to the housing reform in 1998, real estate development in China was an integral part of the country's planned economy with the PRC government developing and supplying housing for its urban population under a welfare system. The state-allocated housing policy was abolished in 1998, creating a market-based system for property transactions. Individuals were subsequently encouraged to purchase their own properties with mortgage financing, hence bolstering the growth of the property market. At the same time, the PRC government controls policies affecting the development of the real estate market, such as those relating to land supply, land grant process, building code, mortgage interest rate, down payment rate, etc. Therefore, government regulations and policies play an important role in PRC's property market. For a discussion of key real estate reforms and changes in PRC government policies, see "Regulation." A brief timeline of key property reforms and government regulations and policies is set out below.

| | |
|------------|--|
| 1988 | The PRC government amended the national constitution to permit the transfer of state-owned land use rights. |
| 1994 | The PRC government further implemented property reform and established an employer/employee-funded housing fund. |
| 1995 | The PRC government issued regulations regarding the sales and pre-sales of property, establishing a regulatory framework for property sales. |
| 1998 | The PRC government abolished its state-allocated housing policy. |
| 1999 | The PRC government extended its maximum mortgage term to 30 years. |
| | The PRC government increased its maximum mortgage financing from 70% to 80%. |
| | The PRC government formalized procedures for the sale of property in the secondary market. |
| 2000 | The PRC government issued regulations to standardize the quality of construction projects, establishing a framework for administering construction quality. |
| 2001 | The PRC government issued regulations relating to the sales of commodity properties. |
| 2002 | The PRC government promulgated the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-For-Sale. |
| | The PRC government eliminated the dual system for domestic and overseas property buyers in China. |
| 2003 | The PRC government promulgated rules for more stringent administration of property loans with a view to reducing the credit and systemic risks associated with such loans. |
| | The State Council issued a notice for sustainable and healthy development of the property market. |

| | |
|---|--|
| 2004 | The State Council issued a notice requiring that, with respect to property development projects (excluding ordinary standard residential houses), the proportion of capital funds should be increased from 20% to 35%. The Ministry of Construction (“MOC”), renamed as the Ministry of Housing and Urban-Rural Development (“MOHURD”) in 2008, amended Administrative Measures on the Pre-sale of Commercial Housing in Cities. CBRC issued the Guideline for Commercial Banks on Risks of Real Estate Loans to further strengthen the risk management of commercial banks on property loans. |
| 2005 | The PRC government instituted additional measures to discourage speculation in certain regional markets including increasing the minimum required down payment to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% for sales within two years of purchase, and prohibiting reselling unfinished properties before they are completed. |
| 2006 to mid-2008 | <p>The PRC government implemented additional land supply, bank financing, foreign investment and other measures to curtail rapid increases in property prices, to encourage the development of middle-to low-end housing and to promote healthy development of the PRC property industry.</p> <p>To further curtail speculation over development and rapid increases in property prices, the PRC government issued regulations to urge the full and effective use of existing construction land and the preservation of farming land and rules to control financial institutions’ property financings. Starting from June 1, 2006, transfer of residential properties by individuals within five years of purchase is subject to business tax based on the sales income.</p> |
| Mid-2008 to third quarter of 2009 | The PRC government implemented a number of measures to combat the global economic slowdown. These measures include the lowering of the PBOC benchmark bank lending rates, the internal capital ratio for property projects and the downpayment requirements for purchasing ordinary residential properties. From January 1, 2009 to December 31, 2009, transfer of non-ordinary residential properties by individuals with two years of purchase is subject to business tax based on the sales income, while the business tax levied on the transfer of ordinary residential properties by individuals within two years of purchase is based on the difference between the sales income and the purchase price. |
| Fourth quarter of 2009 | The PRC government adjusted some of its policies in order to enhance regulation in the property market, to restrain property purchases for investment or speculation purposes and to keep property prices from rising too quickly in certain cities, including abolishing certain preferential treatment relating to business tax payable upon transfers of residential properties. |

| | |
|---------------------------------|--|
| 2010 | The PRC government issued a number of measures and policies to curtail the overheating of the property market. These measures and policies include increasing the down payment and the loan interest rates for properties purchased with mortgage loans, imposing more stringent requirements on the payment of land premiums, suspending grants of mortgage loans to nonresidents who cannot provide any proof of local tax or social insurance payment for more than one year, abolishing certain preferential tax treatment and limiting the number of residential properties one household can purchase in certain areas. The PRC government also clarified certain issues with respect to the calculation, settlement and collection of LAT in order to enforce the settlement and collection of LAT, and the criteria for commercial banks to identify the second housing unit when approving mortgage loans. Starting from January 1, 2010, the business tax preferential treatment on transfer of non-ordinary residential properties has been abolished and the business tax levied on the transfer of ordinary residential properties within five years of purchase is preferentially based on the difference between the sales income and the purchase price. |
| January 1, 2011 to Present..... | The PRC government issued the notices to further regulate the property market, including raising minimum down payment for second house purchasers, abolishing the business tax preferential treatment on transfer of ordinary residential properties within five years, imposing more stringent fines on the idle land, further limiting the number of residential properties one household can purchase. From January 27, 2011, transfer of residential properties by individuals within five years of purchase is subject to business tax based on the sales income, while the business tax levied on the transfer of non-ordinary residential properties by individuals after five years of purchase is based on the difference between the sales income and the purchase price. In addition, on January 28, 2011, Shanghai and Chongqing commenced trials in levying property tax. Thirty-four cities, including Beijing, Shanghai, Guangzhou, Tianjin, Nanjing, Chengdu, Wuxi, Qingdao, Hangzhou, Xi'an, Changzhou, Shengyang and Dalian, have promulgated local measures to restrict housing purchases, as a step to implement the Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) issued on January 26, 2011. |

KEY REAL ESTATE MARKETS

While the first-tier cities including Beijing and Shanghai have attracted significant amounts of real estate investment from both homebuyers and investors, property markets in other areas of China have experienced remarkable growth as well. To fully capitalize on the tremendous real estate development and investment opportunities across the PRC, we have established a portfolio of projects in cities which are ranked among the top in China by their respective real estate investment amount. We originated in Chongqing. We currently focus on the Western Region, the Pan Bohai Rim and the Yangtze River Delta, three regions that have growth potential.

WESTERN REGION

CHONGQING

Overview

As a PRC government designated pilot reform city under the Western Development Plan, Chongqing is one of the most important economic hubs and transportation hubs of western China, and has witnessed a sharp increase in investors' interests. Chongqing is also the fourth self-administered municipality in China, after Beijing, Shanghai and Tianjin, covering an area of approximately 82,400 square kilometers. Chongqing had a permanent population of approximately 28.6 million at the end of 2009.

As a result of recent policy initiatives, the Chongqing economy has experienced a remarkable growth in the past five years. GDP increased from RMB306.7 billion in 2005 to RMB653.0 billion in 2009, representing a CAGR of approximately 20.8% over the same period. Per capita GDP grew from RMB10,982 in 2005 to RMB22,920 in 2009, representing a CAGR of approximately 20.2%. The table below sets forth selected data relating to economic development in Chongqing for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 306.7 | 345.2 | 412.3 | 509.7 | 653.0 |
| Per capita GDP (RMB) | 10,982 | 12,457 | 14,660 | 18,025 | 22,920 |
| GDP growth rate (%) | 11.5 | 12.2 | 15.6 | 14.3 | 14.9 |
| Per capita disposable income of urban households (RMB) | 10,244 | 11,570 | 12,591 | 14,368 | 15,749 |

Source: Chongqing Statistical Yearbook, CEIC 2005-2009

Chongqing property market

In line with its positive economic sentiment and growing housing demand, Chongqing's real estate market experienced considerable growth in recent years. Average commodity property prices grew at a CAGR of approximately 12.7% from RMB2,135 per sq.m. in 2005 to RMB3,442 per sq.m. in 2009. Total GFA of residential properties sold increased from 17.9 million sq.m. in 2005 to 37.7 million sq.m. in 2009. The table below sets forth selected data relating to real estate development in Chongqing for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|-------|-------|-------|-------|-------|
| Total GFA completed (million sq.m.) | 22.1 | 22.3 | 22.5 | 23.7 | 29.1 |
| Total GFA of commodity properties sold (million sq.m.) | 20.2 | 22.3 | 35.5 | 28.7 | 40.0 |
| Total GFA of residential properties sold (million sq.m.) | 17.9 | 20.1 | 33.1 | 26.7 | 37.7 |
| Average price of commodity properties (RMB per sq.m.) | 2,135 | 2,270 | 2,723 | 2,786 | 3,442 |
| Sales revenue of commodity properties (RMB billion) | 43.1 | 50.6 | 96.7 | 80.0 | 137.8 |

Source: Chongqing Statistical Yearbook, CEIC 2005-2009

CHENGDU

Overview

Chengdu is the provincial capital of the Sichuan Province and has emerged as an important manufacturing hub in southwest China following the entry of a number of large multinational companies. Covering an area of approximately 12,390 square kilometers, Chengdu's total permanent population was approximately 11.4 million at the end of 2009.

Having benefited from the PRC government's Western Development Plan, Chengdu has experienced substantial economic growth, with nominal GDP increasing at a CAGR of approximately 17.4% from RMB237.1 billion in 2005 to RMB450.3 billion in 2009. Per capita disposable income in Chengdu also grew significantly from RMB11,359 in 2005 to RMB18,659 in 2009, indicating the increasing purchase power of the Chengdu population. The table below sets forth selected data relating to economic development in Chengdu for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 237.1 | 275.0 | 332.4 | 390.1 | 450.3 |
| Per capita GDP (RMB) | 19,627 | 22,269 | 26,526 | 30,855 | 34,996 |
| GDP growth rate (%) | 13.5 | 13.8 | 15.3 | 12.1 | 14.7 |
| Per capita disposable income of urban households (RMB) | 11,359 | 12,789 | 14,849 | 16,943 | 18,659 |

Sources: Sichuan Statistical Yearbook, Chengdu Statistical Communique, CEIC 2005-2009

Chengdu property market

Chengdu's property market has also experienced a robust upward trend in recent years. According to the National Bureau of Statistics, the average price of commodity properties grew at a CAGR of approximately 18.6% from RMB2,866 per sq.m. in 2005 to RMB4,778 per sq.m. in 2008 and residential GFA sold more than doubled to 25.3 million sq.m. in 2009 from 11.1 million sq.m. in 2005. The table below sets forth selected data relating to real estate development in Chengdu for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|-------|-------|-------|-------|------|
| Total GFA completed (million sq.m.) | 7.6 | 12.0 | 10.9 | 9.6 | 16.4 |
| Total GFA of commodity properties sold (million sq.m.) | 12.3 | 16.0 | 22.3 | 12.7 | 26.9 |
| Total GFA of residential properties sold (million sq.m.) | 11.1 | 14.9 | 20.8 | 11.9 | 25.3 |
| Average price of commodity properties (RMB per sq.m.) | 2,866 | 3,493 | 4,198 | 4,778 | N/A |
| Sales revenue of commodity properties (RMB billion) | 39.6 | 58.2 | 95.2 | 62.7 | N/A |

Sources: Sichuan Statistical Yearbook, Chengdu Statistical Communique, CEIC 2005-2009

XI'AN

Overview

The capital of Shaanxi Province, Xi'an is a historical city and an important tourist destination as the home to China's terracotta warriors. It is the core political, economic and cultural center of northwest China and a significant high-tech manufacturing hub designated by the PRC government as one of five "China Outsourcing Bases." Xi'an covers an area of approximately 10,108 square kilometers and had a total permanent population of approximately 7.8 million at the end of 2009.

The table below sets forth selected data relating to economic development in Xi'an for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 127.0 | 147.4 | 176.4 | 219.0 | 271.9 |
| Per capita GDP (RMB) | 15,859 | 18,085 | 21,339 | 26,259 | 32,351 |
| GDP growth rate (%) | 13.1 | 13.1 | 14.7 | 15.6 | 14.5 |
| Per capita disposable income of urban households (RMB) | 9,628 | 10,905 | 12,662 | 15,207 | 18,963 |

Sources: Xi'an Statistical Yearbook, Xi'an Statistical Communique, CEIC 2005-2009

Xi'an property market

According to the National Bureau of Statistics, the average price of commodity properties grew from RMB2,686 per sq.m. in 2005 to RMB3,749 per sq.m. in 2009, representing a CAGR of 8.7%. Residential GFA sold more than tripled to 12.0 million sq.m. in 2009 from 4.8 million sq.m. in 2005, resulting in an unprecedented growth in property sales revenue. The table below sets forth selected data relating to real estate development in Xi'an for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|-------|-------|-------|-------|-------|
| Total GFA completed (million sq.m.) | 3.6 | 4.0 | 4.8 | 4.7 | 5.4 |
| Total GFA of commodity properties sold (million sq.m.) | 5.0 | 6.2 | 8.3 | 7.6 | 12.6 |
| Total GFA of residential properties sold (million sq.m.) | 4.8 | 5.8 | 7.8 | 6.0 | 12.0 |
| Average price of commodity properties (RMB per sq.m.) | 2,686 | 3,073 | 3,215 | 3,768 | 3,749 |
| Sales revenue of commodity properties (RMB billion) | 17.1 | 20.6 | 28.2 | 31.8 | 48.9 |

Sources: Xi'an Statistical Yearbook, Xi'an Statistical Communique, CEIC 2005-2009

YUXI

Overview

Yuxi is a prefecture-level city in the Yunnan Province and is approximately 90 kilometers south of Kunming, the capital of Yunnan. The city covers an area of approximately 15,285 square kilometers and had a total permanent population of approximately 2.3 million in 2009.

Yuxi is one of the fastest growing small cities in China. In recent years its nominal GDP grew from RMB36.8 billion in 2005 to RMB64.4 billion in 2009, and its per capita GDP increased at a CAGR of 12.5% from RMB17,630 to RMB28,245 over the same period.

The table below sets forth selected data relating to economic development in Yuxi for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 36.8 | 41.5 | 49.6 | 59.6 | 64.4 |
| Per capita GDP (RMB) | 17,630 | 18,734 | 21,974 | 26,260 | 28,245 |
| GDP growth rate (%) | 7.6 | 11.2 | 13.2 | 13.0 | 11.8 |
| Per capita disposable income of urban households (RMB) | 8,842 | 9,526 | 11,193 | 13,264 | 14,741 |

Sources: Yuxi Statistical Communique, CEIC 2005-2009

PAN BOHAI RIM

BEIJING

Overview

As the nation's capital, Beijing is a municipality that covers an area of approximately 16,808 square kilometers and had a total permanent population of approximately 22.0 million at the end of 2009.

Beijing's economy has developed significantly over the years. This is primarily due to robust growth of the national economy as well as the increasing inflow of foreign direct investment. From 2005 to 2009, Beijing's nominal GDP grew from RMB688.6 billion to RMB1,215.3 billion, representing a CAGR of approximately 15.3% over the same period. Per capita GDP also increased significantly from RMB45,444 in 2005 to RMB68,788 in 2009. Since August 2008, Beijing has further enhanced its international profile with the successful hosting of the Olympic Games as well as an improved environment and transportation system, which is anticipated to further attract direct investment and new demand for residential properties in the city.

The table below sets forth selected data relating to economic development in Beijing for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|---------|---------|
| Nominal GDP (RMB billion) | 688.6 | 786.1 | 935.3 | 1,048.8 | 1,215.3 |
| Per capita GDP (RMB) | 45,444 | 50,467 | 58,204 | 63,029 | 68,788 |
| GDP growth rate (%) | 11.8 | 12.8 | 13.3 | 9.0 | 10.1 |
| Per capita disposable income of urban households (RMB) | 17,653 | 19,978 | 21,989 | 24,725 | 26,738 |

Sources: China Statistical Yearbook, Beijing Statistical Communique, CEIC 2005-2009

Beijing property market

Despite the series of austerity measures implemented by the PRC government to cool the real estate market, Beijing's property market has attracted substantial investment in the recent years. The city's average selling price of commodity properties also rose significantly to RMB13,799 per sq.m. in 2009, representing a CAGR of 19.4% from RMB6,788 in 2005. Total sales revenue of commodity properties increased from RMB175.9 billion in 2005 to RMB326.0 billion in 2009. The table below sets forth selected data relating to real estate development in Beijing for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|-------|-------|--------|--------|--------|
| Total GFA completed (million sq.m.) | 37.7 | 31.9 | 28.9 | 25.6 | 26.8 |
| Total GFA of commodity properties sold (million sq.m.) | 31.2 | 26.1 | 21.8 | 13.4 | 23.6 |
| Total GFA of residential properties sold (million sq.m.) | 28.2 | 22.1 | 17.3 | 10.3 | 18.8 |
| Average price of commodity properties (RMB per sq.m.) | 6,788 | 8,280 | 11,553 | 12,418 | 13,799 |
| Sales revenue of commodity properties (RMB billion) | 175.9 | 216.1 | 251.9 | 165.8 | 326.0 |

Sources: China Statistical Yearbook, Beijing Statistical Communique, CEIC 2005-2009

SHENYANG

Overview

As the capital city of Liaoning Province, Shenyang has long been the economic and industrial center of northeastern China. Covering an area of approximately 12,980 square kilometers, Shenyang's total permanent population was approximately 7.2 million at the end of 2009.

Benefiting from its strategic position in northeastern China, and the strategy of rejuvenating old industrial bases announced in the 11th Five-Year Plan, Shenyang has witnessed substantial economic growth with its nominal GDP growing from RMB208.4 billion in 2005 to RMB435.9 billion in 2009, representing a CAGR of approximately 20.3% over the same period. Per capita disposable income also grew from RMB10,098 in 2005 to RMB18,560 in 2009.

The table below sets forth selected data relating to economic development in Shenyang for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 208.4 | 248.3 | 307.5 | 386.1 | 435.9 |
| Per capita GDP (RMB) | 29,935 | 35,940 | 43,499 | 54,106 | 55,816 |
| GDP growth rate (%) | 16.0 | 16.5 | 17.7 | 16.3 | 14.1 |
| Per capita disposable income of urban households (RMB) | 10,098 | 11,651 | 14,607 | 17,295 | 18,560 |

Sources: Liaoning Statistical Yearbook, Shenyang Statistical Communique, CEIC 2005-2009

Shenyang property market

Compared with the city's substantial GDP growth, Shenyang's property prices have been relatively stagnant, with the average price of commodity properties growing at a CAGR of approximately 9.5% from RMB3,027 per sq.m. in 2005 to RMB4,346 per sq.m. in 2009, largely reflecting the ample property supply in the local market. Total GFA of residential properties sold increased from 9.3 million sq.m. in 2005 to 12.2 million sq.m. in 2009. The table below sets forth selected data relating to real estate development in Shenyang for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|-------|-------|-------|-------|-------|
| Total GFA completed (million sq.m.) | 10.6 | 11.9 | 12.9 | 12.9 | 12.9 |
| Total GFA of commodity properties sold (million sq.m.) | 10.0 | 12.4 | 14.6 | 14.7 | 14.0 |
| Total GFA of residential properties sold (million sq.m.) | 9.3 | 11.5 | 13.6 | 13.1 | 12.2 |
| Average price of commodity properties (RMB per sq.m.) | 3,027 | 3,184 | 3,536 | 3,856 | 4,346 |
| Sales revenue of commodity properties (RMB billion) | 31.7 | 42.0 | 54.1 | 60.5 | 58.5 |

Sources: Liaoning Statistical Yearbook and Shenyang Statistical Communique 2005-2009

QINGDAO

Overview

Qingdao is one of the most important industrial, sea transportation and tourism centers in Shandong Province. In 2006, Qingdao was ranked one of six "golden cities" by the World Bank, out of 120 Chinese cities assessed, based on factors including investment climate and government effectiveness. Qingdao covers an area of approximately 10,654 square kilometers, and its total permanent population was approximately 7.6 million at the end of 2009.

Qingdao has witnessed substantial economic growth with its nominal GDP growing from RMB268.7 billion in 2005 to RMB485.4 billion in 2009, representing a CAGR of approximately 15.9% over the same period. Per capita disposable income also grew from RMB12,920 in 2005 to RMB22,368 in 2009.

The table below sets forth selected data relating to economic development in Qingdao for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 268.7 | 318.3 | 375.0 | 440.2 | 485.4 |
| Per capita GDP (RMB) | 33,085 | 38,608 | 44,964 | 52,266 | 57,251 |
| GDP growth rate (%) | 16.6 | 15.3 | 15.5 | 13.2 | 12.2 |
| Per capita disposable income of urban households (RMB) | 12,920 | 15,328 | 17,856 | 20,464 | 22,368 |

Sources: Qingdao Statistical Yearbook, Qingdao Statistical Communique, CEIC 2005-2009

Qingdao property market

In line with the rapid economic growth, Qingdao's real estate market also grew significantly in recent years. Sales revenue of commodity properties increased at a CAGR of 26.9% from RMB2.7 billion in 2005 to RMB7.0 billion in 2009.

The table below sets forth selected data relating to real estate development in Qingdao for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|-------|-------|-------|-------|------|
| Total GFA of commodity properties completed (million sq.m.) | 6.8 | 6.5 | 6.4 | 6.6 | 8.1 |
| Total GFA of commodity properties sold (million sq.m.) | 7.4 | 7.4 | 8.3 | 7.7 | 12.6 |
| Total GFA of residential properties sold (million sq.m.) | 6.5 | 6.6 | 7.7 | 6.9 | 11.5 |
| Average price of commodity properties (RMB per sq.m.) | 3,466 | 3,998 | 5,103 | 4,758 | N/A |
| Sales revenue of commodity properties (RMB billion) | 2.7 | 3.1 | 4.3 | 3.9 | 7.0 |

Sources: Qingdao Statistical Yearbook, Qingdao Statistical Communique, CEIC 2005-2009

DALIAN

Overview

Dalian is the second largest city in Liaoning Province and an important modern industrial and transportation center in northeastern China. According to a nationwide appraisal by the National Bureau of Statistics, Dalian ranks eighth among Chinese cities in terms of overall strength. The city covers an area of approximately 12,574 square kilometers and had a total permanent population of approximately 6.2 million at the end of 2009.

Dalian has achieved double-digit economic growth in the recent years with nominal GDP doubling from RMB215.2 billion in 2005 to RMB441.8 billion in 2009, and its per capita GDP increasing at a CAGR of 17.1% from RMB38,196 to RMB71,883 over the same period.

The table below sets forth selected data relating to economic development in Dalian for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 215.2 | 257.0 | 313.1 | 385.8 | 441.8 |
| Per capita GDP (RMB) | 38,196 | 42,579 | 51,630 | 63,198 | 71,833 |
| GDP growth rate (%) | 14.2 | 16.5 | 17.5 | 16.5 | 15.0 |
| Per capita disposable income of urban households (RMB) | 11,994 | 13,350 | 15,109 | 17,500 | 19,014 |

Sources: Dalian Statistical Yearbook, Dalian Statistical Communique, 2005-2009

Dalian property market

In line with the rapid economic growth, Dalian's real estate market also grew significantly in recent years. Total GFA of residential properties sold increased from 4.7 million sq.m. in 2005 to 10.9 million sq.m. in 2009. Sales revenue of commodity properties increased at a CAGR of 40.1% from RMB18.7 billion in 2005 to RMB72.0 billion in 2009.

The table below sets forth selected data relating to real estate development in Dalian for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|------|-------|-------|-------|
| Total GFA of commodity properties completed (million sq.m.) | 3.9 | 5.4 | 4.3 | 7.5 | 5.5 |
| Total GFA of commodity properties sold (million sq.m.) | 5.0 | 6.3 | 8.3 | 8.2 | 11.5 |
| Total GFA of residential properties sold (million sq.m.) | 4.7 | 5.7 | 7.8 | 7.7 | 10.9 |
| Average price of commodity properties (RMB per sq.m.) | N/A | N/A | 7,359 | 7,958 | 8,307 |
| Sales revenue of commodity properties (RMB billion) | 18.7 | 28.4 | 46.1 | 47.5 | 72.0 |

Sources: Dalian Statistical Yearbook, Dalian Statistical Communique, 2005-2009

YANTAI

Overview

Yantai is a prefecture-level city in northeastern Shandong province. It is a robust economic center and the largest fishing seaport in Shandong. The city covers an area of approximately 13,740 square kilometers and had a total permanent population of approximately 6.5 million in 2009.

Yantai is one of the fastest growing small cities in China. In recent years its nominal GDP grew from RMB201.2 billion in 2005 to RMB372.9 billion in 2009, and its per capita GDP increased at a CAGR of 14.5% from RMB30,923 to RMB53,066 over the same period.

The table below sets forth selected data relating to economic development in Yantai for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 201.2 | 240.6 | 288.0 | 343.4 | 372.9 |
| Per capita GDP (RMB) | 30,923 | 37,075 | 41,271 | 49,012 | 53,066 |
| GDP growth rate (%) | 17.4 | 16.8 | 16.6 | 13.1 | 13.5 |
| Per capita disposable income of urban households (RMB) | 12,452 | 14,374 | 16,772 | 19,350 | 21,125 |

Sources: Yantai Statistical Communique, CEIC 2005-2009

YANGTZE RIVER DELTA

SHANGHAI

Overview

Shanghai has long been established as one of the most important financial and trading centers of the PRC and the location of choice for a vast number of multinational corporations seeking to establish headquarters in China. The municipality covers an area of approximately 6,340.5 square kilometers and had a total permanent population of approximately 19.2 million in 2009.

The Shanghai economy has been growing rapidly since the 1990s. Shanghai's GDP increased from RMB916.4 billion in 2005 to RMB1,504.7 billion in 2009, representing a CAGR of approximately 11.3% over the same period. Per capita GDP grew from RMB51,474 in 2005 to RMB78,989 in 2009, representing a CAGR of 11.7% over the same period. As the host of the World Expo in 2010, Shanghai is expected to continue to benefit from foreign investment, further strengthening its position as the leading economic and financial center of the nation.

The table below sets forth selected data relating to economic development in Shanghai for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|---------|---------|---------|---------|
| Nominal GDP (RMB billion) | 916.4 | 1,036.6 | 1,218.9 | 1,369.8 | 1,504.7 |
| Per capita GDP (RMB) | 51,474 | 57,695 | 66,367 | 73,124 | 78,989 |
| GDP growth rate (%) | 11.1 | 12.0 | 14.3 | 9.7 | 8.2 |
| Per capita disposable income of urban households (RMB) | 18,645 | 20,668 | 23,623 | 26,675 | 28,838 |

Sources: Shanghai Statistical Yearbook, CEIC 2005-2009

Shanghai property market

The Shanghai property market has been relatively stagnant over the past few years. However, Shanghai World Expo 2010 was a positive catalyst for the Shanghai property market due to related infrastructure improvements and revitalization of the expo venue.

According to the National Bureau of Statistics, 29.3 million sq.m. of residential properties were sold in Shanghai in 2009 as compared to 28.5 million sq.m. in 2005. The average selling price increased from RMB6,842 per sq.m. in 2005 to RMB12,840 per sq.m. in 2009, representing a CAGR of 21.9%. The table below sets forth selected data relating to real estate development in Shanghai for years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|-------|-------|-------|-------|--------|
| Total GFA completed (million sq.m.) | 31.0 | 32.7 | 33.8 | 24.8 | 21.0 |
| Total GFA of commodity properties sold (million sq.m.) | 31.6 | 30.3 | 36.9 | 23.0 | 33.7 |
| Total GFA of residential properties sold (million sq.m.) | 28.5 | 26.2 | 32.8 | 19.7 | 29.3 |
| Average price of commodity properties (RMB per sq.m.) | 6,842 | 7,196 | 8,361 | 8,255 | 12,840 |
| Sales revenue of commodity properties (RMB billion) | 216.1 | 217.7 | 308.9 | 189.5 | 433.0 |

Sources: Shanghai Statistical Yearbook, CEIC 2005-2009

WUXI

Overview

Wuxi is a historical commercial center and the second largest economy in Jiangsu Province in terms of GDP, one of the most prosperous regions in China. It covers an area of approximately 4,788 square kilometers and had a total permanent population of approximately 4.7 million at the end of 2009.

Propelled by its private economy and foreign investment, Wuxi has achieved robust economic growth with nominal GDP increasing at a CAGR of approximately 15.5% from RMB280.5 billion in 2005 to RMB499.2 billion in 2009, and its per capita GDP reached RMB81,151 in 2009.

The table below sets forth selected data relating to economic development in Wuxi for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 280.5 | 330.0 | 385.8 | 442.0 | 499.2 |
| Per capita GDP (RMB) | 50,958 | 57,709 | 65,203 | 73,053 | 81,151 |
| GDP growth rate (%) | 15.1 | 15.3 | 15.3 | 12.4 | 11.6 |
| Per capita disposable income of urban households (RMB) | 16,005 | 18,189 | 20,898 | 23,605 | 25,027 |

Sources: Jiangsu Statistical Yearbook, Wuxi Statistical Communique, CEIC 2005-2009

Wuxi property market

In line with the city's substantial growth in per capita GDP, Wuxi's real estate market experienced significant growth in recent years. Total GFA of commodity properties sold increased from 6.0 million sq.m. in 2005 to 10.1 million sq.m. in 2009 while the average commodity property price grew from RMB2,162 per sq.m. to RMB5,662 per sq.m. over the same period, representing a CAGR of 27.2%.

The table below sets forth selected data relating to real estate development in Wuxi for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|-------|-------|-------|-------|-------|
| Total GFA of commodity properties completed (million sq.m.) | 5.7 | 6.6 | 6.1 | 7.1 | 6.8 |
| Total GFA of commodity properties sold (million sq.m.) | 6.0 | 6.5 | 7.4 | 5.4 | 10.1 |
| Average price of commodity properties (RMB per sq.m.) | 2,162 | 3,807 | 4,579 | 5,376 | 5,662 |
| Sales revenue of commodity properties (RMB billion) | 12.9 | 24.7 | 33.7 | 28.9 | 57.2 |

Sources: Jiangsu Statistical Yearbook, Wuxi Statistical Communique, CEIC 2005-2009

CHANGZHOU

Overview

Situated in the center of the Yangtze River Delta, Changzhou is an important modern manufacturing base in the region, forming a metropolitan region with Suzhou and Wuxi. The city covers an area of approximately 4,385 square kilometers and had a total permanent population of approximately 4.5 million at the end of 2009.

Changzhou has achieved double-digit economic growth in the recent years with nominal GDP doubling from RMB130.2 billion in 2005 to RMB251.9 billion in 2009, and its per capita GDP increasing at a CAGR of 11.2% from RMB37,174 to RMB56,861 over the same period.

The table below sets forth selected data relating to economic development in Changzhou for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 130.2 | 156.9 | 188.0 | 220.2 | 251.9 |
| Per capita GDP (RMB) | 37,174 | 37,210 | 43,674 | 50,283 | 56,861 |
| GDP growth rate (%) | 15.1 | 15.2 | 15.6 | 12.4 | 11.7 |
| Per capita disposable income of urban households (RMB) | 14,589 | 16,649 | 19,089 | 21,592 | 23,751 |

Sources: Changzhou Statistical Yearbook, Changzhou Statistical Communique 2005-2009

Changzhou property market

In line with the rapid economic growth, Changzhou's real estate market also grew significantly in recent years. Total GFA of residential properties sold increased from 2.6 million sq.m. in 2005 to 7.9 sq.m. in 2009 while the average price of commodity properties grew from RMB3,683 per sq.m in 2005 to RMB6,307 per sq.m. in 2009.

The table below sets forth selected data relating to real estate development in Changzhou for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|-------|-------|-------|-------|-------|
| Total GFA of commodity properties completed (million sq.m.) | 5.2 | 4.0 | 6.0 | 6.9 | 7.3 |
| Total GFA of commodity properties sold (million sq.m.) | 3.0 | 4.8 | 5.8 | 5.0 | 8.9 |
| Total GFA of residential properties sold (million sq.m.) | 2.6 | 4.1 | 5.1 | 4.3 | 7.9 |
| Average price of commodity properties (RMB per sq.m.) | 3,683 | 3,992 | 4,292 | 4,629 | 6,307 |
| Sales revenue of commodity properties (RMB billion) | 11.0 | 19.1 | 22.9 | 23.1 | N/A |

Sources: Changzhou Statistical Yearbook, Changzhou Statistical Communique, 2005-2009

HANGZHOU

Overview

As the capital of Zhejiang Province, Hangzhou has long been an economic and industrial center of east China. Covering an area of approximately 16,596 square kilometers, Hangzhou's total permanent population was approximately 6.8 million in 2009.

Benefiting from its strategic position in east China, Hangzhou has witnessed substantial economic growth with its nominal GDP growing from RMB294.3 billion in 2005 to RMB509.9 billion in 2009, representing a CAGR of approximately 14.7% over the same period. Per capita GDP also grew from RMB44,853 in 2005 to RMB74,924 in 2009.

The table below sets forth selected data relating to economic development in Hangzhou for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|--------|--------|--------|--------|--------|
| Nominal GDP (RMB billion) | 294.3 | 344.1 | 410.4 | 478.1 | 509.9 |
| Per capita GDP (RMB) | 44,853 | 51,871 | 52,638 | 70,832 | 74,924 |
| GDP growth rate (%) | 13.0 | 14.3 | 14.6 | 11.0 | 10.0 |
| Per capita disposable income of urban households (RMB) | 16,601 | 19,027 | 21,689 | 23,534 | 26,864 |

Sources: Hangzhou Statistical Yearbook, Hangzhou Statistical Communique, CEIC 2005-2009

Hangzhou property market

In line with the rapid economic growth, Hangzhou's real estate market also grew significantly in recent years. Total GFA of commodity properties sold increased from 7.0 million sq.m. in 2005 to 14.4 million sq.m. in 2009. The average price of commodity properties grew from RMB5,454 per sq.m in 2005 to RMB12,348 per sq.m. in 2009, representing a CAGR of 31.6%.

The table below sets forth selected data relating to real estate development in Hangzhou for the years indicated:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|-------|-------|-------|--------|--------|
| Total GFA of commodity properties completed (million sq.m.) | 7.1 | 6.3 | 7.7 | 8.9 | 7.6 |
| Total GFA of commodity properties sold (million sq.m.) | 7.0 | 7.6 | 11.5 | 7.2 | 14.4 |
| Total GFA of residential properties sold (million sq.m.) | 6.2 | 6.8 | 10.4 | 6.3 | 13.0 |
| Average price of commodity properties (RMB per sq.m.) | 5,454 | 5,967 | 8,340 | 10,432 | 12,348 |

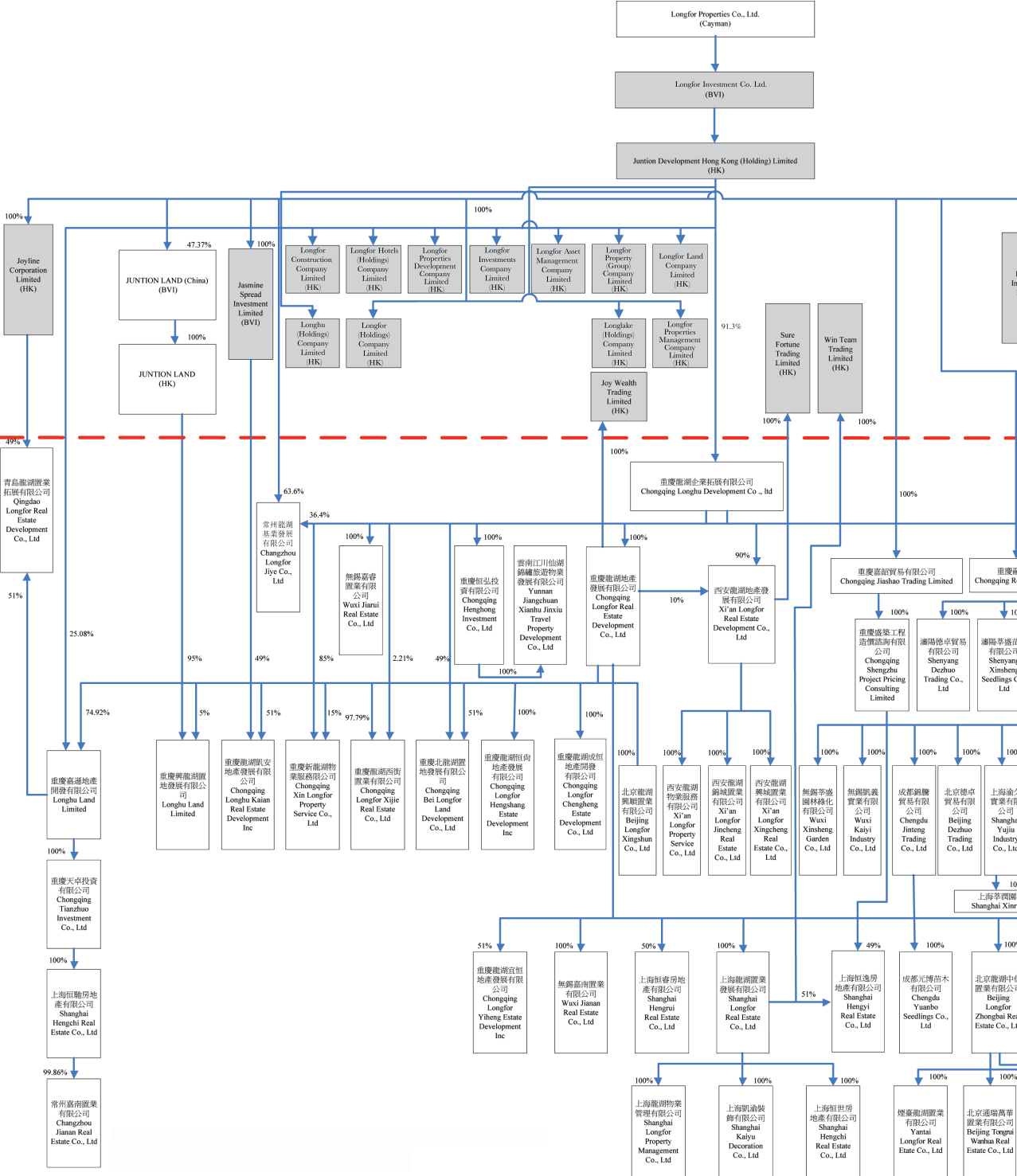
Sources: Hangzhou Statistical Yearbook, Hangzhou Statistical Communique, CEIC 2005-2009

Retail Property Market in China

The rapid urbanization and growth of disposable income in China has benefited the retail sector, which has experienced strong growth in recent years. As China's population becomes more affluent, its retail habits are shifting from spending on necessities towards discretionary spending. As a result, demand for retail spaces such as convenience stores, supermarkets and shopping malls has been growing quickly. This also presents a great opportunity for the PRC's retail property market.

CORPORATE STRUCTURE

The chart below sets forth our corporate structure as of the date of the offering memorandum.



Note: Entities shaded in grey are Subsidiary Guarantors.

BUSINESS

OVERVIEW

We are a national leader in China's real estate market engaged in property development, investment and management across the country with strong presence in the Western Region, the Pan Bohai Rim and the Yangtze River Delta. In 2010, we ranked eighth among all PRC real estate developers with annual contract sales of RMB33.3 billion¹. As of December 31, 2010, we had 58 projects in 13 different cities with a total land bank of approximately 31.6 million sq.m. in GFA. We have a wide product spectrum and a broad customer base. We offer residences for the mass market, the middle class and the affluent and our residential property development projects cover a wide range of middle-to-high end products, including high-rise apartment buildings, low-rise garden apartments, townhouses and luxury stand-alone houses. We have also built various middle to large scale shopping malls and other commercial properties. Our aim is to become one of the most respected and trusted national market leaders in the property industry in China.

Our business originated in Chongqing, the largest and most populous municipality in Western China, in 1994. Under our "Multiple Products, Selected Regional Focus and Compounding Profit" strategy, we first expanded our business into the Pan Bohai Rim and then the Yangtze River Delta — in 2005, we established our presence in Beijing, China's capital and the first-tier city of the Pan Bohai Rim, and in 2007, we expanded into Shanghai, the first-tier city of the Yangtze River Delta. Within each of these geographic regions, we have strategically aimed to initially capture the region's top-tier city, which we believe to be of strategic significance to establish our national presence and then leveraged our success in that city to expand into the next-tier cities. In the Western Region, leveraging our success in Chongqing, we subsequently expanded into Chengdu in 2005, Xi'an in 2007 and Yuxi in 2010. In the Pan Bohai Rim, we entered into Shenyang and Qingdao in 2009, Dalian and Yantai in 2010. In the Yangtze River Delta, we expanded our presence to Wuxi, Changzhou and Hangzhou in 2009 and Ningbo in 2011.

We have established strong market positions in our strategically focused regions. We are the market leader, in Chongqing and ranked first in terms of both contract sales and GFA sold from 2005 to 2010¹. We are also a leading player in Chengdu, the capital city of Sichuan province, the most populous province in the Western Region. In Chengdu, we ranked third in terms of annual contract sales in 2010¹. In the Beijing residential property market, we ranked second in terms of annual contract sales in 2010¹. In Changzhou, Wuxi and Qingdao, our contract sales ranked second, third and ninth, respectively, in 2010, the first year we launched presales in these cities.¹

In 2008, 2009 and 2010, we entered into sales contracts for our property development projects (including those undertaken by our jointly controlled entities) with an aggregate contract value of approximately RMB10.2 billion, RMB18.4 billion and RMB33.3 billion, respectively. We believe that our strategic geographic expansion from the Western Region to the Pan Bohai Rim and the Yangtze River Delta, together with organic growth of our business in cities in which we have already established a presence, have contributed to our overall growth in contract sales and reduced the geographic concentration of our business. Our contract sales from the Western Region decreased from approximately 57.3% of our total contract sales in 2008 to 40.4% in 2010 and our contract sales from the Pan Bohai Rim decreased from 39.4% of our total contract sales to 35.4% during the same period. During the same period, our contract sales from the Yangtze River Delta increased from 3.3% of our total contract sales to 24.2%. Revenue from property investment has also increased from RMB158.8 million to RMB287.3 million from 2008 to 2010, at a CAGR of 34.5%.

As of December 31, 2010, we had an aggregate of completed GFA of 857,421 sq.m. (including shopping malls held for investment purposes) remaining unsold and 58 projects under

¹ Source: CRIC, China Index Academy and dichan.sina.com.cn.

development or under planning with a total planned GFA of approximately 31,609,281 sq.m. As of December 31, 2010, we also owned six shopping malls in Chongqing and Chengdu with a total GFA of approximately 398,990 sq.m. (including car parks), currently being held for investment purposes. As of the same date, ten commercial properties we intended to hold for investment purpose, with a total planned GFA of 1,728,563 sq.m. were under development or under planning. For further information regarding the GFA breakdown of our portfolio of projects under various stages of development, see “Business — Our Business — Overview of Our Projects.”

Our land bank includes GFA under development and GFA under planning. The following table summarizes our land bank by city as of December 31, 2010:

| CITIES | Completed GFA Remaining Unsold (sq.m.) | GFA Under Development (sq.m.) | GFA Under Planning (sq.m.) | Land Use Rights Yet to Be Obtained ⁽¹⁾ (sq.m.) |
|-----------------------------|--|-------------------------------------|----------------------------------|--|
| Western Region | | | | |
| Chongqing | 609,866 | 2,391,338 | 4,892,805 | 2,388,848 |
| Chengdu | 115,800 | 1,224,716 | 1,901,062 | 1,326,642 |
| Xi'an | — | 272,153 | 1,861,979 | 1,110,435 |
| Yuxi | — | — | 822,100 | 822,100 |
| <i>Subtotal</i> | <i>725,666</i> | <i>3,888,207</i> | <i>9,477,946</i> | <i>5,648,025</i> |
| Pan Bohai Rim Region | | | | |
| Beijing | 95,638 | 913,345 | 1,080,933 | 615,616 |
| Yantai | — | — | 6,996,311 | 6,996,311 |
| Dalian | — | — | 669,724 | 669,724 |
| Shenyang | — | 175,776 | 2,704,256 | 2,333,579 |
| Qingdao | — | 104,445 | 560,966 | 408,796 |
| <i>Subtotal</i> | <i>95,638</i> | <i>1,193,566</i> | <i>12,012,190</i> | <i>11,024,026</i> |
| Yangtze River Delta | | | | |
| Shanghai | 36,117 | 337,916 | 199,016 | — |
| Wuxi | — | 311,380 | 900,819 | 791,367 |
| Changzhou | — | 181,132 | 1,959,953 | 1,451,087 |
| Hangzhou | — | 92,582 | 1,054,573 | 807,272 |
| <i>Subtotal</i> | <i>36,117</i> | <i>923,010</i> | <i>4,114,362</i> | <i>3,049,727</i> |
| Total GFA | 857,421 | 6,004,783 | 25,604,498 | 19,721,778 |

(1) “Land Use Rights Yet to Be Obtained” is included in “GFA Under Planning.”

We believe we enjoy brand and product recognition among regulators (such as those mentioned below), customers and suppliers. Over the past ten years, we have received a multitude of recognition and awards, including the following:

- In 2010, our North Paradise Walk project in Chongqing was named the “Best Landlord” in 2010 (together with CR Land’s Shenzhen Mixc City and Hang Lung Properties’ Shanghai Grand Gateway) by the China Shopping Center Development Association of Mall China (中國購物中心產業資訊中心和中購聯中國購物中心);
- For the years (2003, 2005, 2006 and 2009) in which we were surveyed, we were consistently ranked number one in the “National Residential Customers’ Satisfaction Survey” (全國住宅用戶滿意度調查), a survey conducted by the China Association for Quality (中國質量協會). For instance, in 2006, we scored 92.3 points in user satisfaction and 89.5 points in customer loyalty, out of a total of 100 points, the highest among more than 20 property companies surveyed;

- In 2009, our King Land project in Chengdu was awarded the Gold Prize of the “Zhan Tianyou Prize for Excellent Residential Project Areas 2009” by the China Civil Engineering Society (2009中國土木工程詹天佑獎優秀住宅小區金獎);
- In 2008, our “Longhu” (龍湖) brand name was accredited by the State Administration for Industry and Commerce as a “Well-known Trademark in China” (中國馳名商標);
- In 2007, our Crystal Town project in Chongqing was granted the “China Construction Project Luban Prize” (中國建築工程魯班獎), a prize given in recognition of the highest quality of construction work, by the Ministry of Construction and the Architecture Association of China (中國建築業協會);
- In 2007, we were recognized as one of the “Top 500 in 2006 China Enterprise Information” (2006年度中國企業信息化500強) by the National Information Evaluation Center of the China Electronic Commerce Association (CECA國家信息化測評中心) (one of the only two real estate companies in China winning such recognition); and
- In 2004, our Chunsen Land project in Chongqing won the “Next LA Citation Award” by the American Institute of Architects, Los Angeles in connection with its design.

Aside from our contract sales, we have access to diversified funding channels, thereby enabling us to increase liquidity and optimize our financing capabilities. Within the PRC, we have formed relationships with major domestic banks including ABC, CCB and ICBC. As of December 31, 2010, we had total credit facilities of approximately RMB41 billion from CCB, ABC and ICBC, among which approximately RMB29 billion are undrawn. In May 2009, our RMB1.4 billion corporate bond was listed on the Shanghai Stock Exchange, which was the only such issuance approved by the National Development and Reform Commission (“NDRC”) for non-State Owned Enterprise PRC real estate developers since then. We also have funding sources outside of China. Prior to our initial public offering in Hong Kong in 2009, we obtained a HK\$2.52 billion term loan provided by various banking institutions and affiliates of real estate developers to pay up capital contributions to certain of our subsidiaries and as general working capital for our offshore subsidiaries. We fully repaid this term loan prior to our IPO in 2009. We completed a successful initial public offering in Hong Kong in November 2009 despite difficult market conditions at that time. Listing on the Hong Kong Stock Exchange provided us a ready source of financing through public market fundraising. In April 2010, we obtained a HK\$2.15 billion four-year syndicated loan on an unsecured basis from a number of international and domestic banking institutions in Hong Kong.

OUR STRENGTHS

We believe that our success and future prospects are supported by a combination of the following competitive strengths:

We are a national leader in the PRC real estate market with strong presence in the Western Region, the Pan Bohai Rim and the Yangtze River Delta.

We are a national leader in the PRC real estate market. In 2010, we ranked eighth among the top PRC real estate developers in terms of annual contract sales and we had the highest year-over-year growth rate of approximately 81.5% in contract sales among the top ten developers in a volatile market, according to CRIC. As of December 31, 2010, we had a total land bank of approximately 31.6 million sq.m. of GFA in 13 different cities across the Western Region, the Pan Bohai Rim and the Yangtze River Delta.

We have succeeded in expanding our business from the Western Region into the Pan Bohai Rim and then the Yangtze River Delta in the past six years, and have established a solid presence now in each of our strategic regions — we established our presence in the PRC capital city of Beijing, the top-tier city of the Pan Bohai Rim, in 2005 and in Shanghai, the top-tier city of the

Yangtze River Delta, in 2007. Within each of these geographic regions, we have adopted the strategy of initially capturing the first-tier city of that region and then leveraging our success in that city to expand into the next-tier cities. As a result, we have established strong presence in each of the regions.

Western Region. Our business originated in Chongqing in 1994, and following our success in Chongqing, we subsequently expanded into Chengdu in 2005, Xi'an in 2007 and Yuxi in 2010. We are the market leader in Chongqing, the largest and most populous municipality in the Western Region as well as in China. We ranked first in terms of both contract sales and GFA sold from 2005 to 2010. We are also a leading player in the residential property market of Chengdu, the capital of Sichuan province, the most populous province in the Western Region. We ranked third in terms of annual contract sales in Chengdu in 2010.

Pan Bohai Rim. We entered Beijing in 2005 and expanded into Shenyang and Qingdao in 2009 and Dalian and Yantai in 2010. In the Beijing residential property market, we ranked second in terms of annual contract sales in 2010. In Qingdao, our contract sales ranked ninth locally in the first year we launched pre-sales. Our products in this region have also been well-received by our customers. We achieved subscription rates of approximately 95% and 100% of the offered units of our first two projects in Beijing, the Beijing Rose and Ginkgo Villa and Beijing Chianti, on the first day of pre-sales at premium pricing in September 2007, and generated approximately RMB3.0 billion of contract sales in the first four months of sales. We also achieved a subscription rate of approximately 95% of the offered units of the Qingdao Rose and Ginkgo Coast (Baisha Project) on the first day of pre-sales at premium price in October 2010, generating approximately RMB1.5 billion of contract sales in 2010.

Yangtze River Delta. We entered Shanghai in 2007, and expanded into Wuxi, Changzhou and Hangzhou in 2009. In Changzhou and Wuxi, our contract sales ranked second and third, respectively, in the first year we launched pre-sales. These products have also enjoyed successes with our customers. Our projects, Wuxi Rose and Ginkgo Villa (Taike Yuan), Changzhou Chianti (Qing Long Project), and Hangzhou Rose and Ginkgo Villa (Xia Sha Project) received overwhelming market responses upon their respective launches in May, October and November 2010, with approximately 96%, 100% and 93% of the offered units were subscribed for on the first day of pre-sales at premium pricing, generating approximately RMB1.9 billion, RMB1.3 billion and RMB1.2 billion of contract sales in 2010, respectively.

We believe that our track record of successful expansion in the Western Region, the Pan Bohai Rim and the Yangtze River Delta and our established nationwide presence will enable us to continue expanding our business into other regions of the PRC.

We deliver a wide spectrum of quality products through our proprietary product design bank and quick-turnover execution capabilities.

We have extensive experience in developing a wide range of properties including high-rise and low-rise apartment buildings, low-rise garden apartments, townhouses and luxury stand-alone villas. We offer residences to a broad customer base including the mass market, the middle class and the affluent segments. Apart from residential properties, we also develop and own investment properties and have expertise in operating shopping malls of various sizes and targeting different populations, including metropolitan shopping centers, community shopping centers or lifestyle shopping centers.

Our wide spectrum of quality products allows us to access a wide range of customers from different age groups and income brackets. This would not only diversify our target customer base but also increase our chance of securing demand for upgrades from our existing customers since we can offer them choices of higher-end properties as their purchasing power improves. Our

multi-series product offerings based on modular product designs, combined with our quick turnover and quality work, have helped us replicate our success in various cities, achieve sales growth and brand building. Our diversified product portfolio also puts us in a better position to mitigate market risks in the PRC.

Over the years, we have developed a proprietary product design bank encompassing various structural layout modules, such as the quasi-detached villa, the courtyard-townhouse and the duplex apartment, and property styles, such as the Toscana, the Contemporary Chinese, the Mediterranean and the British styles. These innovative modular product designs are stored in our R&D management system and can be quickly fine-tuned, matched and combined to suit the tastes of customers in a broad range of markets. For example, our vertical split-level garden apartments, which were awarded a design patent in the PRC, feature low density and high construction quality in a compact layout. We have also incorporated contemporary Chinese architectural designs into our Wisdom Town project, British architectural designs into our Peace Hill County project and Mediterranean architectural designs into our Shanghai Rose and Ginkgo Villa project. We believe our projects have been well received in the market and we believe this illustrates the quality and versatility of our proprietary product design bank.

Our standardized development process and project execution capabilities enable us to generate cash inflow quickly and achieve positive cash flow soon after land acquisitions. Our 2010 contract sales assets turnover rate, which is defined as contract sales divided by the average of the year's beginning and ending total assets, was 58.4%. For our typical project development, construction starts three months after land acquisition and pre-sales occur nine months after land acquisition. We typically reach cash break-even 12 months after land acquisition. This quick turnover strategy ensures a healthy cash flow during a development cycle. For example, one of our projects, Beijing Chianti, started pre-sales seven months after land acquisition and we achieved cash break-even nine months after land acquisition.

We have built a well-known premium brand supported by our quality product offerings and well-regarded property management services, as evidenced by our loyal customer base and superior pricing power.

We have maintained high standards across different product lines and have earned strong market recognition as well as various professional and governmental accreditations. In 2008, our “Longhu” (龍湖) brand name was accredited by the State Administration for Industry and Commerce as a “Well-known Trademark in China” (中國馳名商標). In 2009, our King Land project in Chengdu was awarded the Gold Prize of the “Zhan Tianyou Prize for Excellent Residential Project Areas 2009” by the China Civil Engineering Society (2009中國土木工程詹天佑獎優秀住宅小區金獎). Some other projects that have won awards nationally and locally include the Crystal Town project for the mass market segment and the Fragrant Forest and the Blue Lake County projects for the luxury segment. In 2010, we, as the owner of North Paradise Walk in Chongqing, were awarded the “Best Landlord” among only three recipients in the PRC, by the China Shopping Center Development Association of Mall China (中國購物中心產業資訊中心和中購聯中國購物中心).

Sound property management, we believe, enhances customer satisfaction and preserves the investment value of our properties. We ranked number one in all the four years (2003, 2005, 2006 and 2009) in which we were selected to participate in the “National Residential Customers’ Satisfaction Survey” (全國住宅用戶滿意度調查) conducted by the China Association for Quality (中國質量協會). We believe our property management division has helped to differentiate and promote our brand name. Chongqing Xinlonghu is accredited as a Grade I Quality Property Management Enterprise (一級資質物業管理企業) as assessed by the Ministry of Construction in 2005. In March 2008, we were recognized as one of the “Top 10 Brand Names of Property Management Industry in China” (中國物業行業十大品牌) by People’s Daily and China High-Tech

Industrialization Association. In November 2008, we were recognized as one of the “Top 10 Excellent Property Management Enterprises with High Quality of Services of the Year” (2008中國優秀物業服務企業服務質量 Top 10) by China Real Estate Top 10 Research Group (中國房地產Top 10研究組).

Our brand premium is evidenced by our loyal customer base and superior pricing power. In a 2010 survey conducted by FG Consulting Co., Ltd. (北京賽惟諮詢有限公司), our customer satisfaction rate was 89%, customer referral rate was 82% and our repeated customer rate was 24%, all of which reflects our customers’ satisfaction with our products and services and their loyalty to us. The success of our “Longfor” (龍湖) brand is also evidenced by our ability to command premium pricing for our property projects. For example, although Beijing Rose and Ginkgo Villa, our townhouse project, was priced at a higher average selling price than most luxury stand-alone villas (which generally command higher prices than townhouses) in the same district, the project still generated overwhelming market demand, with approximately 95% of the offered units were subscribed for on the first day of pre-sales in 2007. As another example, although Wuxi Rose and Ginkgo Villa was priced at an average selling price (“ASP”) higher than the market ASP of similar products, the project still generated overwhelming market demand, with approximately 96% of the offered units were subscribed for on the first day of pre-sales in 2010.

We have a well-diversified and quality land bank across China to ensure our healthy growth.

Our land bank is well diversified throughout the Western Region, the Pan Bohai Rim and the Yangtze River Delta, ensuring a well-balanced development presence. As of December 31, 2010, we had approximately 31.6 million sq.m. of quality land bank with approximately 42.3% in the Western Region, 41.8% in the Pan Bohai Rim and 15.9% in the Yangtze River Delta. Approximately 8.0% of our land bank is located in first-tier cities including Beijing and Shanghai, 60.5% in second-tier cities including Chongqing, Chengdu, Xi’an, Wuxi, Hangzhou, Qingdao, Shenyang and Dalian and 31.5% in third-tier cities including Changzhou, Yantai and Yuxi. We target to assign approximately 15% of our land bank for commercial real estate developments with the remaining portion approximately equally distributed between high-density and low-density residential developments.

We have a low land cost relative to ASP. In 2010, our contract sales ASP was RMB13,577 per sq.m. and our average land cost was RMB1,935 per sq.m., accounting for approximately 14.3% of our ASP. Because of such a low ratio, we can dedicate more capital and resources to building quality products and increasing our profit margin, ultimately delivering more value to both our customers and shareholders and consequently further strengthening our brand name. Our low land cost can also provide us with a better cushion against industry down cycles. In terms of location selection, we strategically purchase our land bank in cities where there is significant economic growth potential and that have planned new urban development, in order to capitalize on key future transportation infrastructure and landmarks and ensure premium pricing going forward.

We have continued to broaden our funding sources and maintained strong liquidity.

Aside from fundings from our contract sales, we have access to diversified funding channels as our business grows, thereby increasing liquidity and optimizing our financing capabilities.

Within the PRC, we have formed relationships with major domestic banks including ABC, CCB and ICBC. We have been given an AAA rating by CCB and an AAA+ rating by ABC. As of December 31, 2010, we had total credit facilities of approximately RMB41 billion from the CCB, the ABC and the ICBC, among which approximately RMB29 billion are undrawn. In May 2009, our RMB1.4 billion corporate bond was listed on the Shanghai Stock Exchange, the only non-State Owned Enterprise PRC developer approved by the National Development and Reform Commission (“NDRC”) since then.

We also have funding sources outside of China. Prior to our Initial Public Offering in Hong Kong in 2009, we obtained a HK\$2.52 billion term loan provided by various banking institutions and affiliates of real estate developers to pay up capital contributions to certain of our subsidiaries and as general working capital of our offshore subsidiaries. We have subsequently fully repaid this term loan. We completed a successful initial public offering in Hong Kong in November 2009 despite difficult market conditions at that time. Listing on the Hong Kong Stock Exchange provided us a ready source of financing through future public market fund raising. In April 2010, we obtained a HK\$2.15 billion four-year syndicated loan on an unsecured basis from a number of international and domestic banking institutions in Hong Kong.

Our cash and debt profile indicators also improved in recent years. Our average debt maturity was 3.4 years in 2010. Our unsecured debt as a percentage of our total debts has increased from 26.3% in 2009 to 46.6% in 2010. Our unrestricted ending cash balances in 2008, 2009 and 2010 were RMB3,228.8 million, RMB6,801.6 million and RMB9,863.1 million, respectively.

We have an efficient operation enabled by our decentralized decision-making structure, outstanding workforce and robust information technology system.

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We are a national real estate development company with a decentralized two-level decision-making structure. Our two-level structure, namely, the headquarters and the city-level management, is flat and nimble. Our headquarters delegates substantial power to the city-level management in making project-specific and city-specific operational decisions while retaining company-wide decision-making authority. We believe the decentralized decision-making structure is critical given the localized nature of the property business and the distinctive cultures in different regions of China. This structure also enables our senior management to be promptly informed of market developments and contributes crucially to our quick execution.

Pursuant to our human resources strategy, we recruit our managers with an emphasis on entrepreneurial spirit and our general staff on a service-oriented attitude. Emphasizing on-the-job training, we evaluate our employees comprehensively and provide them with career opportunities. We strive to cultivate a “One Longfor” corporate culture of commitment and discipline across the entire company. We emphasize passion and dedication and downplay title and status. We encourage collaboration and discourage bureaucracy. Our employees are driven by their passion for excellence and at the same time are highly disciplined and methodical. Our result-driven remuneration policy provides competitive total compensation (base salary, bonus and stock options). As of January 31, 2011, our employees have been collectively awarded approximately 3.53% of our Company through our stock award and stock options program.

Our information technology system is also key to our success. We have an integrated company-wide information technology system that allows us to maintain a high degree of intra-group transparency, which in turn enhances our internal control and helps institutionalize our best practices. This enables us to monitor the overall consistency of our operations while delegating more decision-making authority to our local subsidiaries. Since 1999, we have systematically invested in information technology to make our processes and product know-how easy to use and convenient to share. For example, our OA system enables us to assess our IT platform via the Internet or wireless cell phones at any time and anywhere as long as connectivity can be established. Our OA system comprises expandable modules which include office automation, knowledge management, cost management, project planning, human resources, and customer relationship management. In addition, we implemented business intelligence systems. Employees can, among other things, access the latest sales information, approve contracts, make payment instructions, share work experience, check the cost status and progress of each project, read company policies and regulations and handle administrative procedures such as filing

expenses claims on a real-time basis. In 2007, we were recognized as one of the “Top 500 in 2006 China Enterprise Information” (2006年度中國企業信息化500強) by the National Informatization Evaluation Center of the China Electronic Commerce Association (CECA國家信息化測評中心) (one of the only two real estate companies in China winning such recognition).

OUR STRATEGY

We have adopted a “Multiple Products, Selected Regional Focus and Compounding Profit” strategy under which we focus initially on cultivating the capability to develop multiple types of properties in cities where we already operate and then expand selectively into other PRC regions that are expected to have a large inflow of population and, in particular, locations where higher income people prefer to reside. We aim to become a market leader in every regional market we enter into by establishing a business presence in a wide range of market segments. We believe that once we have a sizable market share in the targeted regional markets, we can maximize our bargaining power with suppliers and customers, attract more talented employees and be more effective in liaising with local government authorities. We seek to integrate residential and commercial developments to maximize synergy and we gradually roll out investment properties to achieve stable income growth. We believe our strategy will be effective in exploiting the long-term growth of the PRC property market. We will continue to execute this strategy based on the following priorities.

Further implement our region-by-region growth strategy.

We have established a presence in 13 cities in three strategic regions of the PRC: the Western Region, the Pan Bohai Rim and the Yangtze River Delta. We will continue to increase our presence in these regions. We plan to continue to consolidate our leading position in the Western Region by maintaining our market leadership in Chongqing, increasing our market share in Chengdu, reinforcing our presence in Xi’an and starting our project development in Yuxi. In the Pan Bohai Rim, we intend to capitalize on our market position in Beijing and increase our investments in the capital of China. We have also succeeded in penetrating the Qingdao market. By leveraging our success and resources in Beijing and Qingdao, we plan to increase our presence in Shenyang and commence project developments in Dalian and Yantai. Furthermore, we intend to increase the number of projects in and around the Yangtze River Delta, including further expansion in the Wuxi, Changzhou, Hangzhou and Ningbo markets, and enlarge our Shanghai management team to support such growth. Within each of the three strategic regions, we will continue to explore opportunities in other cities as well.

We will also continue to explore business opportunities in other regions of the PRC. We are constantly monitoring the PRC real estate market and looking for the next strategic expansion target. Once we make a decision to enter into a new region, we will continue to follow our strategy of first capturing the key cities in that region and then leveraging our success in the key cities to gradually expand into lower-tier cities within that region.

Prudently expand our investment property portfolio.

Expanding our investment property portfolio is one of our key strategic focuses. As of December 31, 2010, we owned six commercial properties that we developed. We have accumulated eight years of operational experience in managing commercial properties since 2003. One of our key retail assets, the North Paradise Walk Mall (北城天街購物廣場), is regarded as a landmark mall in Chongqing. In 2010, we, as the owner of the North Paradise Walk Mall in Chongqing, were awarded the “Best Landlord,” one of only three recipients in the PRC, by the China Shopping Center Development Association of Mall China. The commercial properties we operate typically have high occupancy rates and generate steady rental income. Our revenue from property investment increased from RMB158.8 million in 2008 to RMB287.3 million in 2010 at a CAGR of 34.5%.

We will focus on developing mixed-use properties by conducting strategic land acquisitions. We will select locations for such developments near key transportation hubs and aim to transform such locations into new business districts. We believe land value in such locations is also likely to appreciate in value over time. Furthermore, by adopting a mixed-use project development strategy, we aim to take advantage of the stable and quality customer base at our residential projects that are usually near transportation hubs. We also plan to develop and operate an additional 10 mid- to large-scale shopping centers with a total expected GFA approximately 1.7 million sq.m. by the end of 2015.

We believe our investment properties portfolio will diversify our revenue sources and improve our revenue stability, which will reduce our exposure to volatility within any particular property segment.

Maintain our short development cycle to further strengthen our cash flow.

Our property development cycle is short. For our typical project, construction starts three months after land acquisition and pre-sales occur nine months after land acquisition. Coupled with our low land acquisition cost, we typically achieve positive cash flow within 12 months after land acquisition, which improves our liquidity position and helps us mitigate the adverse effects of market volatility.

We seek to maintain our short development cycle and fast turnover and continue to boost our operational efficiency. We believe that this strategy will continue to improve our cash flow, optimize our liquidity position and financing profile.

In addition, prevailing PRC government policies discourage the hoarding of excess land by, among other means, repossessioning idle and vacant land and enhancing administration on LAT on the part of the government. Therefore, we believe maintaining a short development cycle helps us mitigate against such regulatory risks.

Further strengthen our well-recognized brand by providing value to our customers through innovative design.

We will continue to reinforce our premium brand image by providing value to our customers. Apart from continuing to provide quality products and premium property management, we will focus on maximizing the use of space to increase customer value through creative architectural planning and innovative product design. For example, we have introduced the “sky townhouse” in the Sunshine Riverside project in Chongqing and the “quasi-detached house” in our Beijing Chianti project. These products are designed to provide our customers a more comfortable living environment and better use of space compared to traditional architectural designs with a similar plot ratio.

Continue to align the interest of our management with shareholders and cultivate leadership and entrepreneurship qualities among our senior management team.

We will further increase our employees’ ownership of our Company to further align our employees’ interests with our shareholders.

We believe that apart from possessing professional skills, a senior management team with leadership and entrepreneurial qualities is a key for us to remain competitive in the long term and forms the basis on which we can formulate our management succession plan. We will continue to emphasize such qualities in our recruitment policy and offer appropriate internal and external trainings on a regular basis.

RECENT DEVELOPMENTS

On February 1, 2011, through public tender, auction and listing-for-sale, we acquired the land for our Chengdu New High-Tech District West project (成都高新區西部園區項目) in Chengdu. The project is for residential/commercial mixed-use. The total site area is 305,675 sq.m. and the planned total GFA is not more than 1,222,698 sq.m. Our total purchase price was RMB1,014.8 million at an average land cost of RMB830 per sq.m.

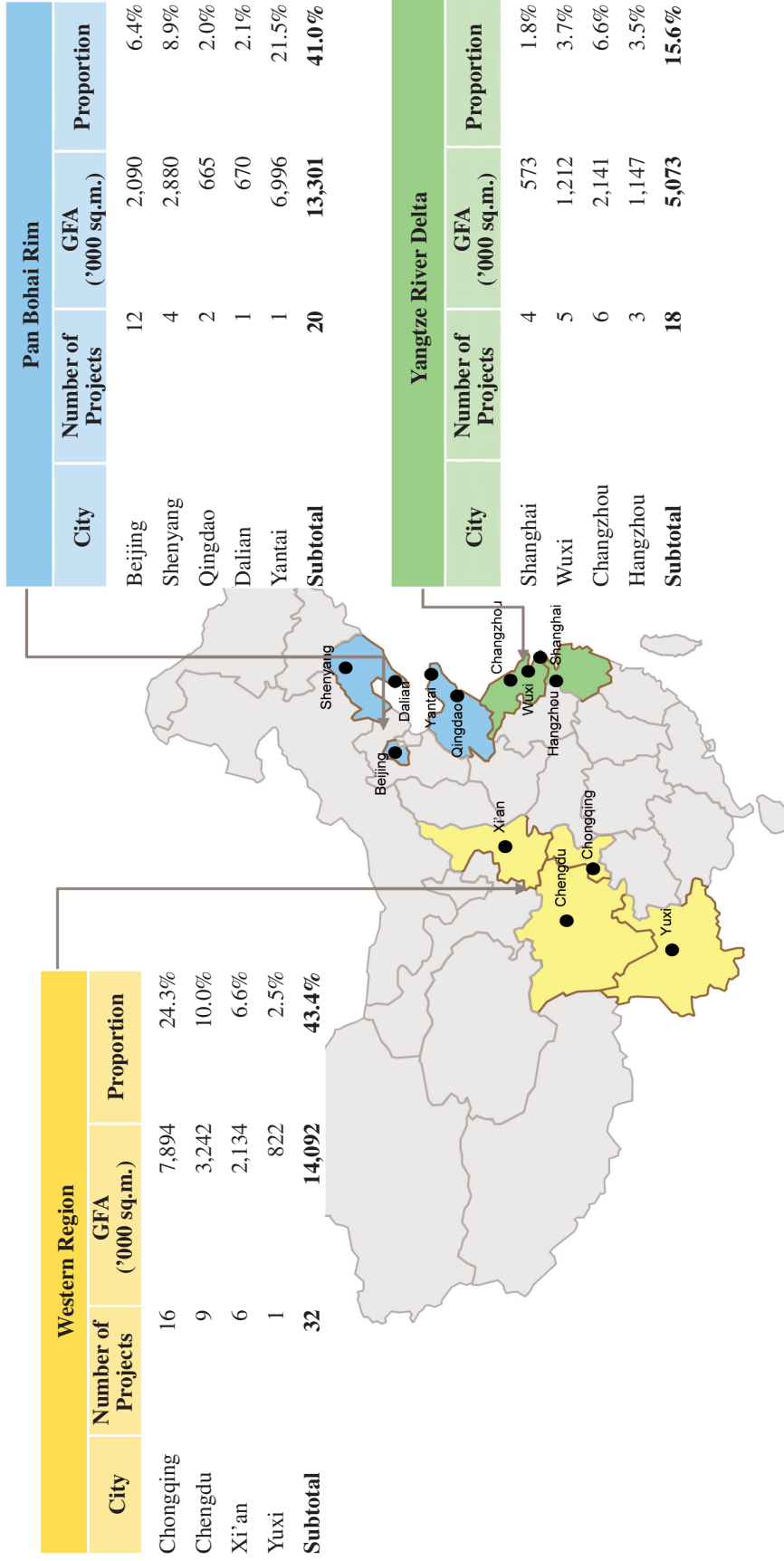
On February 25, 2011, through public tender, auction and listing-for-sale, we acquired the land for our Ningbo Beilun District Binghai New City project (寧波市北侖區濱海新城項目) in the city of Ningbo located in the Yangtze River Delta. The total site area is approximately 505,794 sq.m. and the planned total GFA is approximately 626,500 sq.m. Our total purchase price was RMB950.1 million at an average land cost of approximately RMB1,517 per sq.m.

OUR BUSINESS

Overview of Our Projects

As of December 31, 2010, we had an aggregate of completed but remaining unsold GFA of 857,421 sq.m. (including shopping malls held for investment purposes) and 58 projects under development or under planning with a total planned GFA of approximately 31,609,281 sq.m. As of December 31, 2010, we also owned six shopping malls in Chongqing and Chengdu with a total GFA of approximately 398,990 sq.m. (including car parks), all currently being held for investment purposes. As of the same date, 10 commercial properties we intended to hold for investment purpose, with an expected GFA of 1,728,563 sq.m., were under development or under planning. Our land bank includes GFA under development and GFA under planning. The following map shows the geographical locations and key details of our property development projects as of December 31, 2010, which includes the 58 projects under development or under planning, the six commercial projects held for investment and the completed projects with unsold portions.

Geographical Locations of Our Projects



We broadly classify our property developments into three categories:

- completed projects;
- projects under development; and
- projects under planning.

As some of our projects comprise multiple-phase developments on a rolling basis, a single project may include different phases at various stages of completion, under development or for future development. A project or certain phase of a project is considered completed when we have received the Completed Construction Works Certified Report from the relevant government construction authorities. A project or certain phase of a project is considered to be under development immediately following the issuance of the required construction works commencement permits and before completion of the project or the relevant phase of the project. A project or certain phase of a project is considered to be under planning when we have received the relevant land use rights certificates, or have signed the relevant land grant contracts but have not yet obtained land use rights certificates, or have signed the confirmation letters on bidding for granting land use rights, but have not yet signed the relevant land grant contracts and, in each case, construction work has not yet commenced. With respect to properties for which confirmation letters on bidding for granting land use rights have been signed by the relevant government authority, according to the Rules on Bidding, Auctioning and Listing of State-owned Land Use Rights, which took effect on November 1, 2007, the confirmation letter on bidding for granting land use rights has legal effect on the successful bidders as well as the grantors. If the grantors change the bidding result, or if the successful bidders give up the target land, they shall assume legal responsibility. The winning bidders shall sign the State-owned Land Granting Contract with the grantors as prescribed in the confirmation letter on bidding for granting land use rights. On such basis, we have classified such properties as projects under planning.

We set out below the GFA breakdown of our portfolio of projects under various stages of development by planned use as of December 31, 2010:

| | Completed GFA Remaining Unsold | GFA Under Development | GFA Under Planning | Land Use Rights Not Yet Obtained ⁽¹⁾ |
|------------------------|---|----------------------------------|-------------------------------|--|
| | (sq.m.) | (sq.m.) | (sq.m.) | (sq.m.) |
| Residential | 458,431 | 5,835,388 | 24,045,330 | 18,624,402 |
| Commercial | 398,990 | 169,395 | 1,559,168 | 1,097,376 |
| Total | <u>857,421</u> | <u>6,004,783</u> | <u>25,604,498</u> | <u>19,721,778</u> |

(1) "Land Use Rights Not Yet Obtained" is included in "GFA Under Planning."

We have obtained all the relevant long-term title certificates for the land of our completed properties and properties under development. As of December 31, 2010, we had not yet obtained land use rights certificates to approximately 19,721,778 sq.m. of GFA under planning.

A property is treated as “pre-sold” when the purchase contract has been executed but the property has not yet been delivered to the customer. A property is considered “sold” when the purchase contract with a customer has been executed and the property has been delivered to the customer. Delivery is deemed to take place on the date stated on the property delivery document.

We include in this offering memorandum the project names which we have used, or intend to use, to market our properties. Some of the names for property developments may be different from the names registered with the relevant authorities. They are subject to approval by the relevant authorities and are therefore subject to change.

Overview of Our Land Bank and Our Completed Projects

We set forth certain information, in particular, details regarding projects in our property portfolio as of December 31, 2010, which were under development or were under planning as well as projects which had been completed but remained unsold as shown in the table below. For further details of our land bank and our completed projects that are not set forth in this table, see “Business — Our Property Development Projects.” As of December 31, 2010, we had completed but remaining unsold properties with an aggregate total GFA of approximately 857,421 sq.m.; we also have properties under development with an aggregate GFA of approximately 6,004,783 sq.m. and properties under planning with an aggregate GFA of approximately 25,604,498 sq.m. Furthermore, we had interests in parcels of land for which we signed the relevant land grant contracts or the confirmation letters on bidding for granting land use rights but have not yet obtained land use rights certificates with an aggregate total GFA of 19,721,778 sq.m. as of December 31, 2010.

| Projects ⁽¹⁾ | | Our Interest in the Projects | Locations | Completed GFA ⁽²⁾ | | Land Use Rights Not Yet Obtained ⁽⁵⁾ | | Type |
|--------------------------------------|-------------|------------------------------|-----------|------------------------------|--|---|------------------|-------------|
| | | | | Remaining Unsold (Sq.m.) | GFA Under Development ⁽³⁾ (Sq.m.) | GFA Under Planning ⁽⁴⁾ (Sq.m.) | (Sq.m.) | |
| Western Region | | | | | | | | |
| North Paradise Walk | 重慶北城天街 | 91.30% | Chongqing | 146,262 | — | — | — | Commercial |
| Chongqing Fairy Castle | 重慶紫都城 | 91.30% | Chongqing | 29,413 | — | — | — | Commercial |
| Crystal Palace | 重慶晶靄館 | 91.30% | Chongqing | 44,514 | — | — | — | Commercial |
| West Paradise Walk | 西城天街 | 91.30% | Chongqing | 111,654 | — | — | — | Commercial |
| Chunsen Land | 春森彼岸 | 91.30% | Chongqing | 41,381 | 435,485 | 293,483 | 128,220 | Residential |
| Peace Hill County | 悠山郡 | 91.30% | Chongqing | 65,204 | 111,037 | 120,242 | — | Residential |
| Wisdom Town | 睿城 | 95.56% | Chongqing | 25,850 | — | — | — | Residential |
| MOCO Center (Residential) | MOCO中心 | 91.30% | Chongqing | 28,537 | — | — | — | Residential |
| MOCO Center (Commercial) | MOCO中心 | 91.30% | Chongqing | 29,104 | — | — | — | Commercial |
| Sunshine Riverside | 靄江 | 46.56% | Chongqing | 60,699 | — | — | — | Residential |
| Toschna Villa | 東橋郡 | 95.56% | Chongqing | 10,954 | 410,999 | 429,131 | — | Residential |
| Bamboo Grove | 江與城 | 49.57% | Chongqing | 16,292 | 355,732 | 939,379 | — | Residential |
| Crystal Magic (Residential) | 紫晶城 | 91.30% | Chongqing | — | 218,228 | 577,653 | 405,819 | Residential |
| Crystal Magic (Commercial) | 紫晶城 | 91.30% | Chongqing | — | 162,895 | 355,125 | 355,125 | Commercial |
| University Town | 大學城 | 95.56% | Chongqing | — | 320,961 | 1,432,927 | 846,800 | Residential |
| Mopan Shan | 磨盤山 | 93.48% | Chongqing | — | 376,000 | 744,865 | 652,884 | Residential |
| Chongqing Subtotal | 重慶合計 | | | 609,866 | 2,391,338 | 4,892,805 | 2,388,848 | |
| Three Thousand Castles (Residential) | 三千城 | 93.48% | Chengdu | 7,145 | 168,490 | — | — | Residential |
| Three Thousand Castles (Commercial) | 三千城 | 93.48% | Chengdu | 38,043 | — | — | — | Commercial |
| Bridge County | 長橋郡 | 91.42% | Chengdu | 24,740 | 51,814 | — | — | Residential |

| Projects ⁽¹⁾ | | Our Interest in the Projects | Locations | Completed GFA ⁽²⁾ | | GFA Under Planning ⁽⁴⁾ | Land Use Rights Not Yet Obtained ⁽⁵⁾ | | Type |
|--------------------------------------|-------------|------------------------------|-----------|------------------------------|--------------------------------------|-----------------------------------|---|-------------|------|
| | | | | Remaining Unsold | GFA Under Development ⁽³⁾ | | (Sq.m.) | (Sq.m.) | |
| Chengdu Flamenco Spain | 弗萊明戈 | 91.30% | Chengdu | 45,872 | 442,613 | 198,212 | — | Residential | |
| Century Peak View | 世紀峰景 | 49.13% | Chengdu | — | 270,819 | 313,139 | — | Residential | |
| Jade Town | 小院青城 | 93.48% | Chengdu | — | 48,765 | 58,069 | — | Residential | |
| Wukuai Shi (Residential) | 五塊石 | 91.30% | Chengdu | — | 242,215 | 436,151 | 431,151 | Residential | |
| Wukuai Shi (Commercial) | 五塊石 | 91.30% | Chengdu | — | — | 268,691 | 268,691 | Commercial | |
| Mou Ma Heaven | 牧馬天堂 | 91.30% | Chengdu | — | — | 626,800 | 626,800 | Residential | |
| Chengdu Subtotal | 成都小計 | | | 115,800 | 1,224,716 | 1,901,062 | 1,326,642 | | |
| Xi'an Fairy Castle | 紫都城 | 91.30% | Xi'an | — | 272,153 | — | — | Residential | |
| Xi'an Fairy Castle II | 紫都城二期 | 91.30% | Xi'an | — | — | 71,741 | 71,741 | Residential | |
| Xi'an Chianti | 香醍國際 | 91.30% | Xi'an | — | — | 1,567,120 | 1,038,694 | Residential | |
| Chang'an Wonder | 夜長安 | 91.30% | Xi'an | — | — | 43,535 | — | Residential | |
| Daxing Project (Residential) | 大興項目 | 94.17% | Xi'an | — | — | 136,486 | — | Residential | |
| Daxing Project (Commercial) | 大興項目 | 94.17% | Xi'an | — | — | 43,097 | — | Commercial | |
| Xi'an Subtotal | 西安小計 | | | — | 272,153 | 1,861,979 | 1,110,435 | | |
| Fairy Lake | 江川仙湖錦繡 | 91.30% | Yuxi | — | — | 822,100 | 822,100 | Residential | |
| Yunnan Subtotal | 雲南小計 | | | — | — | 822,100 | 822,100 | | |
| Western Region - Subtotal | | | | 725,666 | 3,888,207 | 9,477,946 | 5,648,025 | | |
| Pan Bohai Rim | | | | | | | | | |
| Summer Palace Splendor (Residential) | 頤和原著 | 89.93% | Beijing | 1,775 | 48,265 | — | — | Residential | |
| Summer Palace Splendor (Commercial) | 頤和原著 | 89.93% | Beijing | — | 6,500 | — | — | Commercial | |
| Towning One | 唐寧ONE | 91.30% | Beijing | — | 250,190 | — | — | Residential | |
| Chianti Riverside | 香醍溪岸 | 91.30% | Beijing | — | 314,502 | — | — | Residential | |
| Azure Chianti | 蔚瀾香醍 | 91.30% | Beijing | — | 123,004 | 12,238 | — | Residential | |
| Changying (Residential) | 常營 | 91.30% | Beijing | — | 170,885 | 100,773 | — | Residential | |
| Changying (Commercial) | 常營 | 91.30% | Beijing | — | — | 286,860 | — | Commercial | |
| Blossom Chianti | 花盛香醍 | 91.30% | Beijing | 36,184 | — | — | — | Residential | |
| Elegance Loft | 大方居 | 91.30% | Beijing | 57,678 | — | — | — | Residential | |
| Niu Lan Shan | 牛欄山鎮居住項目用地 | 89.30% | Beijing | — | — | 152,670 | 152,670 | Residential | |
| Hou Sha Yu | 白辛莊 | 91.30% | Beijing | — | — | 65,446 | — | Residential | |
| Daxing | 大興項目 | 91.30% | Beijing | — | — | 462,946 | 462,946 | Residential | |
| Beijing Subtotal | 北京小計 | | | 95,638 | 913,345 | 1,080,933 | 615,616 | | |
| Island of Horse | 養馬島項目 | 91.30% | Yantai | — | — | 6,996,311 | 6,996,311 | Residential | |
| Yantai Subtotal | 煙臺小計 | | | — | — | 6,996,311 | 6,996,311 | | |
| Longhe II | 旅順龍河2期 | 48.40% | Dalian | — | — | 669,724 | 669,724 | Residential | |
| Dalian Subtotal | 大連小計 | | | — | — | 669,724 | 669,724 | | |
| Huishan Project | 輝山 | 93.48% | Shenyang | — | 71,549 | 14,300 | — | Residential | |
| Huishan Project II | 輝山 II | 93.48% | Shenyang | — | — | 589,278 | 589,278 | Residential | |
| Daoyi Project | 道義 | 96.15% | Shenyang | — | 104,227 | 1,691,104 | 1,334,727 | Residential | |
| Daoyi Project II | 道義項目 II | 96.15% | Shenyang | — | — | 409,574 | 409,574 | Residential | |
| Shenyang Subtotal | 瀋陽小計 | | | — | 175,776 | 2,704,256 | 2,333,579 | | |
| Baisha Project (Residential) | 城陽白沙河項目 | 96.67% | Qingdao | — | 104,445 | 451,833 | 322,046 | Residential | |

| Projects ⁽¹⁾ | | Our Interest in the Projects | Locations | Completed | GFA Under Development ⁽³⁾ | GFA Under Planning ⁽⁴⁾ | Land Use Rights Not Yet Obtained ⁽⁵⁾ | Type |
|---------------------------------------|-------------|------------------------------|-----------|-------------------------------------|--------------------------------------|-----------------------------------|---|-------------|
| | | | | Remaining GFA ⁽²⁾ Unsold | | | | |
| Baisha Project (Commercial) | 城陽白沙河項目 | 96.67% | Qingdao | — | — | 109,133 | 86,750 | Commercial |
| Qingdao Subtotal | 青島小計 | | | — | 104,445 | 560,966 | 408,796 | |
| Pan Bohai Rim - Subtotal | | | | 95,638 | 1,193,566 | 12,012,190 | 11,024,026 | |
| Yangtze River Delta | | | | | | | | |
| Shanghai Rose and Ginkgo Villa | 上海灘瀾山 | 45.56% | Shanghai | 31,176 | — | — | — | Residential |
| Sunshine City | 鄞城 | 93.48% | Shanghai | 4,941 | 238,524 | — | — | Residential |
| Bai Yin Lu Project | 白銀路項目 | 95.56% | Shanghai | — | 39,500 | 108,654 | — | Residential |
| Long Xing Lu | 龍興路項目 | 91.30% | Shanghai | — | 59,892 | 90,362 | — | Residential |
| Shanghai Subtotal | 上海小計 | | | 36,117 | 337,916 | 199,016 | — | |
| Taike Yuan | 太科園 | 91.30% | Wuxi | — | 311,380 | — | — | Residential |
| Taike Yuan II | 太科園 II | 91.30% | Wuxi | — | — | 393,209 | 393,209 | Residential |
| Jing Hu (Commercial) | 無錫淨湖水岸 | 91.30% | Wuxi | — | — | 109,452 | — | Commercial |
| Xihu Road (Residential) | 錫山區易買地塊 | 91.30% | Wuxi | — | — | 321,758 | 321,758 | Residential |
| Xihu Road (Commercial) | 錫山區易買地塊 | 91.30% | Wuxi | — | — | 76,400 | 76,400 | Commercial |
| Wuxi Subtotal | 無錫小計 | | | — | 311,380 | 900,819 | 791,367 | |
| Qinglong Project | 青龍 | 93.35% | Changzhou | — | 107,288 | 173,412 | 172,043 | Residential |
| Qinglong Project II | 青龍 II | 96.83% | Changzhou | — | — | 470,668 | 129,904 | Residential |
| Dongjing 120 Project | 東經120 | 95.00% | Changzhou | — | 73,844 | 166,733 | — | Residential |
| Dongjing 120 Project II (Residential) | 東經120 II | 99.96% | Changzhou | — | — | 104,862 | 104,862 | Residential |
| Dongjing 120 Project II (Commercial) | 東經120 II | 99.96% | Changzhou | — | — | 127,050 | 127,050 | Commercial |
| Hongzhuang Project | 洪莊 | 92.17% | Changzhou | — | — | 917,228 | 917,228 | Residential |
| Changzhou Subtotal | 常州小計 | | | — | 181,132 | 1,959,953 | 1,451,087 | |
| Xiasha Project (Residential) | 下沙項目 | 100.00% | Hangzhou | — | 92,582 | 547,213 | 299,912 | Residential |
| Xiasha Project (Commercial) | 下沙項目 | 100.00% | Hangzhou | — | — | 183,360 | 183,360 | Commercial |
| Chaoshan Project | 超山項目 | 91.30% | Hangzhou | — | — | 324,000 | 324,000 | Residential |
| Hangzhou Subtotal | 杭州小計 | | | — | 92,582 | 1,054,573 | 807,272 | |
| Yangtze River Delta - Subtotal | | | | 36,117 | 923,010 | 4,114,362 | 3,049,727 | |
| Total GFA | | | | 857,421 | 6,004,783 | 25,604,498 | 19,721,778 | |
| Attributable GFA | | | | 737,276 | 5,295,237 | 22,941,648 | 17,966,143 | |

Notes:

- (1) Some project names are not final and are subject to change.
- (2) “Completed GFA” is based on figures provided in surveying reports or Record of Acceptance Examination Upon Project Completion (竣工驗收備案證明) by relevant government departments.
- (3) “GFA Under Development” is based on figures provided in the Planning Permit for Construction Works (建設工程規劃許可證).
- (4) “GFA Under Planning” is based on figures provided or calculated based on figures in the land grant contracts and confirmation letters on bidding for granting land use rights.
- (5) “Land Use Rights Not Yet Obtained” is included in “GFA Under Planning.”

OUR PROPERTY DEVELOPMENT PROJECTS

CHONGQING

Longfor Garden Nanyuan (龍湖花園南苑)

Longfor Garden Nanyuan is located in Yubei District, Chongqing, adjacent to Jiulong Lake. The project is a premium residential development and was named a “Top Ten Chongqing City Residential District” (第一屆及第二屆重慶市十大最佳住宅小區) in 1998 and 2000, respectively. Longfor Garden Nanyuan was developed by Chongqing Longhu Properties.

The entire project occupies a total site area of approximately 163,689 sq.m. and has an aggregate GFA of 229,767 sq.m. It comprises townhouses, low-rise and high-rise apartments, retail units and car parks. The project also provides a number of amenities for the residents, including a clubhouse, a kindergarten and a school.

Longfor Garden Xiyuan (龍湖花園西苑)

Longfor Garden Xiyuan is another completed residential project located next to Longfor Garden Nanyuan. The project was named a “Top Ten Chongqing City Residential District” (第三屆重慶市十大最佳住宅小區) in 2002. The project was developed by Chongqing Longhu Properties.

This project occupies a total site area of approximately 143,248 sq.m. and has an aggregate GFA of approximately 290,412 sq.m. The project comprises low-rise garden apartments and high-rise apartments, retail units and car parks.

Fragrant Forest (香樟林)

Fragrant Forest is a garden-style residential project located on the northern shore of the Jiulong Lake, opposite Longhu Garden Nanyuan and Longhu Garden Xiyuan. The development was named a “Top Ten Garden Style Residential District” (重慶十佳園林小區) in 2007. The project was the first development in Chongqing to adopt the ISO14001 environment quality assurance system. Fragrant Forest was developed by Chongqing Longhu Properties.

The entire project occupies a total site area of approximately 192,310 sq.m. and has an aggregate GFA of approximately 78,559 sq.m. The project comprises luxury stand-alone houses and townhouses.

North Paradise Walk (重慶北城天街)

North Paradise Walk is a mixed-use project with residential and retail components. The development is situated in the Guanyinqiao commercial area of Jiangbei District of Chongqing. The project was developed by Chongqing Longhu Development.

The project occupies a total site area of approximately 58,710 sq.m. and has an aggregate GFA of approximately 345,658 sq.m. The project comprises a residential block named Waft Yard (楓香庭), a SOHO (small office home office) block named New Star (北岸星座) and a commercial complex named North Paradise Walk Mall (北城天街商區).

Waft Yard (楓香庭)

Waft Yard is the residential portion of the North Paradise Walk. Waft Yard has an aggregate GFA of approximately 154,400 sq.m. It comprises high-rise apartments, retail spaces and car parks.

New Star (北岸星座)

New Star comprises one SOHO block as well as retail facilities and car parks. The project has an aggregate GFA of approximately 37,918 sq.m.

North Paradise Walk Mall (北城天街商區)

North Paradise Walk Mall, which we hold for investment purposes, is a popular shopping center in Chongqing with retail, restaurant and entertainment facilities. The project has an aggregate GFA of approximately 146,262 sq.m.

Crystal Town (水晶麗城)

Crystal Town is a large-scale project that comprises residential units, retail spaces and SOHO units. The development is located in the High-tech Zone (高新區) of North New Area (北部新區) of Chongqing and is next to a sports park. It comprises a building named Crystal Star (水晶星座) with SOHO units, an office building named Crystal Cosmo (水晶國際), a retail complex named Crystal Palace (晶麗館) together with car parks. The project was developed by Chongqing Longhu Development.

The project occupies a total site area of approximately 233,799 sq.m. and has an aggregate GFA of approximately 669,107 sq.m.

MOCO Center (MOCO中心)

MOCO Center is a residential and commercial development located near the High-tech Zone of North New Area of Chongqing with a sports park nearby. The project was developed by Chongqing Longhu Development.

The project occupies a total site area of approximately 20,500 sq.m. and has a total GFA of approximately 160,998 sq.m. The project comprises two buildings of high-rise apartments, office area, retail area and car parks.

Blue Lake County (藍湖郡)

Blue Lake County is a large-scale, high-end residential project. It is situated in the North New Area of Chongqing and is adjacent to two main roads - Jinkai Avenue (金開大道) and Jinshan Avenue (金山大道) and is only 20 minutes from the city center. The project was awarded the “Chongqing Grade AAA Residential Area” (重慶AAA級住宅) in 2007. The project was developed by Chongqing Longhu Properties.

The project occupies a total site area of approximately 914,343 sq.m. and has an aggregate GFA of approximately 639,781 sq.m. The project comprises luxury stand-alone houses, townhouses, low-rise garden apartments, high-rise apartments, car parks, retail units. As part of the project, we provide a full range of facilities and amenities such as a large athletics facility with indoor and outdoor swimming pools and a wide variety of sports facilities, a garden, a large shopping mall, a primary school and an international kindergarden.

Chongqing Fairy Castle (重慶紫都城)

Chongqing Fairy Castle is a large-scale project with residential, retail and SOHO development. The project is situated in Yubei District (渝北區) of Chongqing. The project was developed by Chongqing Longhu Properties.

The project occupies a total site area of approximately 199,064 sq.m. and has an aggregate GFA of approximately 501,439 sq.m. The project comprises high-rise apartments, a block of SOHO units known as Fairy Constellation (紫都星座), a retail street called Fairy Paradise Walk (紫都天街), a shopping mall called Fairy Castle Mall (紫都主力店), retail units and car parks.

River View (觀山水)

River View is a high-end residential project with retail facilities located in the Jingkai District (經開區) of Chongqing. The project was developed by Chongqing Longhu Properties.

The project occupies a total site area of approximately 81,846 sq.m. and has an aggregate GFA of approximately 308,862 sq.m. The project comprises high-rise apartments, retail facilities and car parks. This high-end residential project has many facilities including commercial outlets, a kindergarten, a combined outdoor tennis and basketball court, three outdoor swimming pools and one indoor swimming pools, an indoor badminton court and a gymnasium.

Hill of Good Hope (好望山)

Hill of Good Hope is a residential project located in the new area of the North New Area of Chongqing. The project was developed by Chongqing Juntion.

The project occupies a total site area of approximately 120,169 sq.m. and has an aggregate GFA of approximately 149,354 sq.m. The project comprises low-rise garden apartments, townhouses with retail facilities and car parks.

West Paradise Walk (西城天街)

West Paradise Walk is a commercial complex with SOHO units, office and retail spaces. The development is situated in a prime location of the Yangjiaping Pedestrian Zone within the Jiulongpo District (九龍坡區楊家坪步行街核心地段) of Chongqing. The project was developed by Chongqing Longhu Xijie.

The project occupies a total site area of approximately 28,316 sq.m. and has a total GFA of 197,554 sq.m. In addition to retail facilities, it comprises offices and SOHO units.

Urban Courtyard (大城小院)

Urban Courtyard, a modern residential development, is located to the west of Fairy Castle and in the central business area of Yubei District (渝北區), Chongqing. The project was developed by Chongqing Longhu Properties.

The project occupies a total site area of approximately 39,201 sq.m. and has an aggregate GFA of approximately 71,175 sq.m. It comprises low-rise garden apartments, high-rise apartments, retail areas and car parking spaces.

Bamboo Grove (江與城)

Bamboo Grove, an exclusive low-rise residential development comprising low-rise garden apartments, high-rise apartments, stand-alone villas, duplex villas, townhouses, retail spaces and

car parks, with cultural amenities and integrated facilities, is situated in the northern part of the North New Area of Chongqing and is next to the Jialing River. The project is being jointly developed by Juntion Development and Hongkong Land Holdings Limited, which is owned 49.6% by us and 50% by Hongkong Land Holdings Limited.

Based on our current plan, the project will occupy a total site area of approximately 778,648 sq.m. and have an aggregate GFA of approximately 1,724,719 sq.m.

Chunsen Land (春森彼岸)

Chunsen Land, a large-scale premium residential and retail project comprising high-rise apartments, retail units, offices and SOHO units, is located adjacent to Jiangbei District, Chongqing. The project was designed by MRY, America and was awarded the grand prize of “Next LA Citation Award” by the American Institute of Architects. The project is being developed by Chongqing Beilonghu.

Based on our current plan, the project will occupy a total site area of approximately 160,191 sq.m. and have an aggregate GFA of 767,265 sq.m.

Wisdom Town (睿城)

Wisdom Town is a large-scale integrated project with SOHO units, duplex villas, townhouses, apartments and retail units. It is located in the University Town area of the Shapingba District (沙坪壩區大學城片區), Chongqing. The project was developed by Chongqing Longhu Kaian.

The project occupies a total site area of approximately 98,274 sq.m. and has an aggregate GFA of approximately 208,618 sq.m.

Toschna Villa (東橋郡)

Toschna Villa is a large-scale low-density project with low-rise garden apartments, townhouses, high-rise apartments and retail units. It is located in the University Town area of Shapingba District (沙坪壩區大學城片區), Chongqing. The project was developed by Chongqing Longhu Kaian.

The project occupies a total site area of approximately 615,175 sq.m. and has an aggregate GFA of approximately 1,037,674 sq.m.

Peace Hill County (悠山郡)

Peace Hill County is planned to be a large-scale residential community comprising stand-alone villas, low-rise garden apartments, high-rise apartments, retail units and car parks. It is located in the economic and technology zone of Lijia Area (禮嘉片區), Chongqing. It is being developed by Chongqing Longhu Properties.

Based on our current plan, the project will occupy a total site area of approximately 246,951 sq.m. and have an aggregate GFA of approximately 505,468 sq.m.

Sunshine Riverside (麗江)

Sunshine Riverside is a high-end residential project, comprising low-rise garden apartments, high-rise apartments, high-rise bare shell and fitted-out houses, bare shell high-rise apartments, retail units and car parks, located in the Danzishi area of Nan'an District (南岸區彈子石片區), Chongqing. The project is a joint venture which is owned 46.6% by us and 49% by ING Real Estate China Opportunity Fund LP. The project was developed by Chongqing Longhu Yiheng.

The project occupies a total site area of approximately 111,741 sq.m. and has an aggregate GFA of approximately 417,413 sq.m.

Crystal Magic (紫晶城)

Crystal Magic is a large-scale integrated development situated in Yuzhong District (渝中區), Chongqing. The project is being developed by Chongqing Longhu Chengheng Real Estate Development Inc.

Based on our current plan, the project will occupy a total site area of approximately 199,986 sq.m. and have an aggregate GFA of approximately 1,313,901 sq.m. The project will comprise high-rise apartments, low-rise apartments, SOHO units, office, a retail area and car parks.

Mopan Shan (磨盤山)

Mopan Shan is located in Jiangbei District in Chongqing. This project is being developed by Chongqing Jiaxun.

Based on our current plan, the project will occupy a total site area of approximately 224,378 sq.m. and have an aggregate GFA of approximately 1,120,865 sq.m. The project will comprise high-rise apartments, low-rise garden apartments, retail units, SOHO units and car parks.

University Town (大學城)

University Town is located in Shapingba District, Chongqing. The project is being developed by Chongqing Kai'an.

Based on our current plan, the project will occupy a total site area of approximately 588,220 sq.m. and have an aggregate GFA of approximately 1,753,889 sq.m. The project will comprise high-rise apartments, low-rise garden apartments, townhouses retail units and car parks.

CHENGDU

King Land (晶藍半島)

King Land is a mixed-use project conveniently located in Jinjiang District of Chengdu at the intersection of First Ring Road and East Avenue. The project was developed by Chengdu Longhu Jinhua.

The project occupies a total site area of approximately 59,476 sq.m. and has a total GFA of approximately 283,559 sq.m. The project comprises high-rise apartments, retail facilities, car parks and amenities, including a clubhouse with tennis courts, an outdoor swimming pool, an indoor swimming pool and a kindergarten.

Charming Port (翠微清波)

Charming Port is a residential project situated in Qingyang District, Chengdu. It is adjacent to Qingshui River (清水河) and is connected to Chengwen Expressway (成溫高速) and Third Ring Road. The project was developed by Chengdu Longhu Jinhua.

The project occupies a total site area of approximately 87,490 sq.m. and has a total GFA of approximately 321,192 sq.m. The project comprises high-rise apartments, retail units and car parking spaces.

Three Thousand Lane (三千里)

Three Thousand Lane is a large scale mixed-use development situated at the intersection of Second Ring Road and Jianshe Road. The project was developed by Chengdu Longhu Jinhua.

The project occupies a total site area of approximately 55,088 sq.m. and has a total GFA of approximately 325,105 sq.m. The project comprises high-rise apartments, retail units and car parks. The project will also have various sports and recreational facilities, including an outdoor and an indoor swimming pool and a squash court.

Three Thousand Castles (三千城)

Three Thousand Castles is a large-scale integrated project with low-rise and high-rise apartments, SOHO units and retail spaces. It is located near Second Ring Road and is adjacent to our Three Thousand Lane project. The project is being developed by Chengdu Longhu Tongjin.

Based on our current plan, the project will occupy a total site area of approximately 75,787 sq.m. and have an aggregate GFA of approximately 471,683 sq.m.

Bridge County (長橋郡)

Bridge County is an exclusive residential community with luxury stand-alone houses. It is situated in Muma Mountain (牧馬山), Chengdu and is adjacent to the Yangliu River and Nian River. The project is being developed by Longhu Jincheng.

Based on our current plan, the project will occupy a total site area of approximately 469,883 sq.m. and have an aggregate GFA of approximately 265,479 sq.m. The development will comprise primarily luxury stand-alone houses.

Jade Town (小院青城)

Jade Town is a residential project situated at the top of the Qingchengshan Holiday Resort area. The project is being developed by Sichuan Xing Longhu.

Based on our current plan, the project will occupy a total site area of approximately 210,505 sq.m. and have an aggregate GFA of approximately 106,834 sq.m. The development will comprise stand-alone villas, duplex villas, low-rise garden apartments and retail units.

Century Peak View (世紀峰景)

Century Peak View is a premium high-rise residential project situated in the central business district of Chengnan District (城南區), Chengdu, close to the Pride International Exhibition Centre. We own our interest in this project through Chengdu Jiaxun. This is a joint venture project, conducted via four joint venture entities, with ING Real Estate China Opportunity Fund LP (“ING”), Aetos Capital Asia T.E. II, Ltd. and Aetos Capital Asia II, Ltd. (together, “Aetos”). We have a 49.1% interest in the joint venture project. ING and Aetos indirectly hold a 50% interest in the project through the offshore holding company. We acquired the land by investing in the joint venture entities holding the land. The project is being developed by Chengdu Huixin, Chengdu Jinghui, Chengdu Tuocheng and Chengdu Jianan.

Based on our current plan, the project has a total site area of approximately 48,062 sq.m. and a total planned GFA of approximately 583,958 sq.m. This project will comprise high-rise apartments and car parks.

Chengdu Flamenco Spain (成都弗萊明戈)

Chengdu Flamenco Spain is a large scale residential project situated in the New High-Tech Zone of West Chengdu (城西高新西區). The project is being developed by Chengdu Xixi and Chengdu Xixiang.

Based on our current plan, the project has a total site area of approximately 126,137 sq.m. and have an aggregate GFA of approximately 755,647 sq.m. The project will comprise low-rise garden apartments, high-rise apartments, retail units and car parks.

Wukuaishi (五塊石)

Wukuaishi project is located in Jinniu District in Chengdu. We won the auction of this parcel of land in September 2009. The project is being developed by Chengdu Beicheng.

Based on our current plan, Wukuaishi project will occupy a total site area of 184,487 sq.m. and an aggregate GFA of approximately 947,057 sq.m. The project will comprise of low-rise garden apartments, high-rise apartments, retail units, SOHO, offices and car parks.

Mou Ma Heaven (牧馬天堂)

Mou Ma Heaven Project is a residential development located in Xinjin Park County Muma Mountain, Chengdu. The project is adjacent to Longfor-Bridge County project and has a unique mountain landscape.

Based on our current plan, the project will have a total site area of approximately 448,582 sq.m. and a total planned GFA of approximately 626,800 sq.m. The project will comprise mainly of townhouses and duplex villas.

XI'AN

Qujiang Glory (曲江盛景)

Qujiang Glory is a residential project situated in Qujiang District (曲江區), Xi'an and is adjacent to Big Wild Goose Pagoda (大雁塔). The project was developed by Xi'an Longhu Jincheng.

The project occupies a total site area of approximately 34,795 sq.m. and have a total GFA of approximately 76,332 sq.m. The project comprises primarily duplex villas.

Chang'an Wonder (夜長安)

Chang'an Wonder is a commercial project situated in the city center of Qujiang, Xi'an. The project is being developed by Xi'an Longhu Jincheng.

Based on our current plan, the project will occupy a total site area of approximately 30,889 sq.m. and have an aggregate GFA of approximately 43,535 sq.m. for investment purposes. The project will comprise retail area and car parks.

Xi'an Fairy Castle (西安紫都城)

Xi'an Fairy Castle is a residential and commercial development located in Qujiang District (曲江區), Xi'an. The project is being developed by Xi'an Longhu Jincheng.

Based on our current plan, the project will occupy a total site area of approximately 68,939 sq.m. and have an aggregate GFA of approximately 272,153 sq.m. The project will comprise high-rise apartments, retail units and car parking spaces.

Xi'an Chianti (香醍國際)

Xi'an Chianti is a large scale residential project located in Chanba District (滄霸新區), Xi'an. The project is being developed by Xi'an Longhu Xingcheng.

Based on our current plan, the project will occupy a total site area of approximately 500,885 sq.m. and have an aggregate GFA of approximately 1,567,120 sq.m. The project will comprise high-rise apartments, low-rise garden apartments, retail units and car parks.

Daxing Project (大興項目)

Daxing South Land — Longfor MOCO International Project is located at No. 20, Xinghuo Road, Lianhu District, Xi'an. It is a commercial development and is part of the planned Xi'an International Trade and Commerce Base project. We won the auction for the land in March 2010. The project is being developed by Xi'an Runrong.

Based on our current plan, the project will occupy a total site area of approximately 24,503 sq.m. and have a total planned GFA of approximately 179,583 sq.m.

Fairy Castle II (紫都城二期)

Fairy Castle II is located in Qujiang New District, Xin'an. The site is located in the central area of Qujiang New District and is adjacent to the Longfor Fairy Castle project. The project will be for residential/commercial mixed-use. The project is being developed by Xi'an Jincheng.

Based on our current plan, the project will occupy a total site area of approximately 15,607 sq.m. and have a total planned GFA of approximately 71,741 sq.m.

YUXI

Fairy Lake (江川仙湖錦繡)

Fairy Lake Project is located in the city of Yuxi, Yunnan Province. Fairy Lake is the largest deep freshwater lake in China and its water quality is superior. The project will be developed into an international eco-tour project consisting of holiday hotels, local-style business streets and spas. The project is being developed by Yunnan Jiangchuan.

Based on our current plan, the project will occupy a total site area of approximately 1,187,833 sq.m. and have a total planned GFA of approximately 822,100 sq.m.

BEIJING

Beijing Rose and Ginkgo Villa (北京瀾瀾山)

Beijing Rose and Ginkgo Villa is a townhouse project located in Houshayu (後沙峪) with easy access to Jingcheng Expressway (京承高速). The project was developed by Beijing Longhu Properties.

The project occupies a total site area of approximately 164,637 sq.m. and has an aggregate GFA of approximately 197,971 sq.m. It comprises townhouses in Mediterranean style, a clubhouse of international standard and a park.

Beijing Chianti (北京香醍漫步)

Beijing Chianti is a residential project with low-rise apartments and townhouses located in Shunyi District (順義區), Beijing and is adjacent to the 2008 Olympic Aquatic Park and a conservation park. The project was developed by Beijing Longhu Qinghua.

The project occupies a total site area of approximately 168,569 sq.m. and has a total GFA of approximately 217,340 sq.m. The project comprises luxury stand-alone houses, low-rise apartments, low-rise garden apartments, a retail area and car parks.

Summer Palace Splendor (頤和原著)

Summer Palace Splendor is a luxury stand-alone villa development adjacent to the Summer Palace. The project is being developed by Beijing Longhu Properties.

Based on our current plan, the project will occupy a total site area of approximately 97,809 sq.m. and have an aggregate GFA of approximately 128,894 sq.m. It will comprise luxury stand-alone villas and retail units.

Blossom Chianti (花盛香醍)

Blossom Chianti is a large scale residential community located in Banbidian (半壁店) of Tongzhou District, Beijing, adjacent to the Tongzhou Railway Station. The project was developed by Beijing Longhu Zhongbai.

The project occupies a total site area of approximately 99,442 sq.m. and has a total GFA of approximately 213,365 sq.m. It comprises low-rise garden apartments, townhouses, retail units and carparks spaces.

Elegance Loft (大方居)

Elegance Loft is a residential development project of housing with size and price limits and low-rent housing located in Banbidian (半壁店) of Tongzhou District, Beijing, adjacent to the Tongzhou Railway Station. The project was developed by Beijing Longhu Zhongbai.

The project occupies a total site area of approximately 168,388 sq.m. and has a total GFA of approximately 581,062 sq.m. It comprises housing with size and price limits, low-rent housing and retail units.

Towning One (唐寧 ONE)

Towning One is a residential and commercial development located in Zhongguancun (中關村), Haidian District (海澱區) of Beijing and is close to Peking University, Tsinghua University and the Beijing University of Aeronautics and Astronautics. The project is being developed by Beijing Longhu Shidai.

Based on our current plan, the project will occupy a total site area of approximately 41,971 sq.m. and have an aggregate GFA of approximately 250,190 sq.m. The project will comprise high-rise apartments, low-rent housing, SOHO units, retail units, and carparks.

Azure Chianti (蔚瀾香醍)

Azure Chianti is a residential and commercial development project located in Liyuan Town (梨園鎮), Tongzhou District (通州區) of Beijing and is connected to the Jingtong Highway (京通高速) and the Urban Rail Transit Batong Line (城鐵八通綫). The project is being developed by Beijing Longhu Tianxing.

Based on our current plan, the project will occupy a total site area of approximately 55,435 sq.m. and have an aggregate GFA of approximately 135,242 sq.m. The project will comprise high-rise apartments, duplex villas, low-rise apartments, retail units and car parks.

Chianti Riverside (香醍溪岸)

Chianti Riverside is a residential project with high-rise apartments, low-rise garden apartments and stand-alone villas located in Shunyi district (順義區), Beijing and is adjacent to the 2008 Olympic Aquatic Park and a conservation park. It is being developed by Beijing Longhu Qinghua.

Based on our current plan, the project will occupy a total site area of approximately 187,514 sq.m. and have an aggregate GFA of approximately 314,502 sq.m. The project will comprise low-rise garden apartments, high-rise apartments, stand-alone villas, retail units and car parks.

Hou Sha Yu (白辛莊)

Hou Sha Yu is a residential project located in Shunyi District, Beijing.

Based on our current plan, the project will occupy a total site area of approximately 163,165 sq.m. and have a total planned GFA of approximately 65,446 sq.m.

Changying (常營)

Changying Project is located in Chaoyang District, Beijing. The project is located within Changying Village, Chaoyang District. The Changying Station on Subway Line 6 is within the project area. The project is being developed by Beijing Tong Rui Wan Hua.

Based on our current plan, the project will occupy a total site area of approximately 131,897 sq.m. and have a total planned GFA of approximately 558,518 sq.m. The project will comprise residential housing, apartments and retail units.

Daxing Project (大興項目)

Daxing Project is located in Beizang Village, Daxing District, Beijing and is near the Biomedical Base Station on the southern extension of Subway Line 4. The project is for residential and commercial mixed-use.

Based on our current plan, the project will occupy a total site area of approximately 165,338 sq.m. and have a total planned GFA of approximately 462,946 sq.m.

Niu Lan Shan (牛欄山鎮居住項目用地)

Niu Lan Shan is a residential project located in Shunyi District, Beijing. The project is adjacent to the north side of the Longfor Chianti Riverside. The project is being developed by Beijing Xingshun.

Based on our current plan, the project will occupy a total site area of 109,593 sq.m. and have a total planned GFA of approximately 152,670 sq.m.

YANTAI

Yang Ma Island (養馬島項目)

Yang Ma Island is an exclusively residential housing project located in Mouping District, Yantai. The project occupies an extremely rare coast line and will be developed into a high-profile community consisting of leisure facilities, holiday resorts, business facilities and spas. The project is being developed by Yantai Longhu.

Based on our current plan, the project will occupy a total site area of approximately 4,182,586 sq.m. and have a total planned GFA of approximately 6,996,311 sq.m.

DALIAN

Lüshun Longhe II (旅順龍河2期)

Lüshun Longhe II is located at the Southwest of Xincheng District, Lüshun, Dalian. It is at the intersection of three key areas. It is 25km from the airport and 3km from the old city of Lüshun. The construction of the supporting railway system will be completed in May 2013. We acquired the land jointly with Shimao Property Holding Limited, and the project will be developed into a high-profile community consisting of residential housing and commercial units.

Based on our current plan, the project will occupy a total site area of approximately 608,710 sq.m. and have a total planned GFA of approximately 669,724 sq.m.

SHENYANG

Huishan Project (輝山)

Huishan Project is a residential project located in the Huishan District (輝山區). It is being developed by Shenyang Tuozhan.

Based on our current plan, the project will occupy a total site area of 84,086 sq.m. and have an aggregate GFA of approximately 85,849 sq.m. The project will comprise stand-alone villas, high-rise apartments, retail units and car parks.

Huishan Project II (輝山 II)

Huishan Project II is located in Shenbei New District, Shenyang. The site is located in Shenbei New District Huishan Development District and is adjacent to Qipan Mountain. The project is being developed by Shenyang Tuozhan.

Based on our current plan, the project will occupy a total site area of approximately 371,311 sq.m. and a total planned GFA of approximately 589,278 sq.m. The project will comprise low-density housing, high-rise apartments, retail units and car parks.

Daoyi Project (道義)

Daoyi Project is our second project in Shenyang. It is a residential project located in the Daoyi District (道義區). The project is being developed by Shenyang Xinbei.

Based on our current plan, the project will occupy a total site area of 684,420 sq.m. and have an aggregate GFA of approximately 1,795,331 sq.m. This project will comprise high-rise apartments, stand-alone villas, low-rise garden apartments, retail units and car parks.

Daoyi Project II (道義項目 II)

Daoyi Project II is located in Shenbei New District, Shenyang. The site is located in Shenbei New District Daoyi Development District. The project is being developed by Shenyang Xinbei.

Based on our current plan, the project will occupy a total site area of approximately 204,787 sq.m. and have a total planned GFA of approximately 409,574 sq.m. The project will comprise low-density housing, high-rise apartments, retail units and car parks.

QINGDAO

Baisha Project (青島白沙河)

Baisha Project is a residential development located in the Baishahe area of Chengyang District, Qingdao. The project is near the sea and has a beautiful natural landscape. The project is being developed by Qingdao Tuozhan.

Based on our current plan, the project will occupy a total site area of approximately 509,300 sq.m and have a total planned GFA of approximately 665,411 sq.m. The project will comprise of high-rise apartments, stand-alone villas and townhouses.

SHANGHAI

Shanghai Rose and Ginkgo Villa (上海灘瀾山)

Shanghai Rose and Ginkgo Villa is a residential project located in the Qingpu District (青浦區), Shanghai and is adjacent to the Songtang River. The Project was developed by Shanghai Hengrui. Chongqing Longhu Properties holds 45.65% equity interest in this development and COF I SRL holds 50%.

The project occupies a total site area of approximately 144,496 sq.m. and have a total GFA of approximately 236,722 sq.m. The project comprises townhouses, duplex villas and retail units.

Sunshine City (鄞城)

Sunshine City is a residential and commercial development located in Jiading New City (嘉定新城), Jiading District (嘉定區) of Shanghai and is connected to Xiwang Road and Maiji Road and is adjacent to a light rail station. The project is being developed by Shanghai Hengchi Real Estate.

Based on our current plan, the project will occupy a total site area of approximately 178,248 sq.m. and have an aggregate GFA of approximately 452,754 sq.m. The project will comprise high-rise apartments, low-rise garden apartments, townhouses, SOHO, limited-price housing, retail units and car parks.

Bai Yin Lu Project (白銀路項目)

Bai Yin Lu Project is located in Jiading New City, Shanghai. The site is located in the central area of Jiading New City, very close to Subway Line 11. The project is being developed by Shanghai Hengyi.

Based on our current plan, the project will occupy a total site area of approximately 62,819 sq.m. and have a total planned GFA of approximately 148,154 sq.m. The project will comprise standalone villas, townhouses, high-rise apartments and retail units.

Long Xing Lu (龍興路項目)

Hill of Good Hope is located in the Songjiang New City, Shanghai. The site is located in the central area of Songjiang New City, with convenient access to supporting facilities and is close to the Subway Line 9. The project is being developed by Shanghai Hengshi.

Based on our current plan, the project will occupy a total site area of approximately 92,734 sq.m. and have a total planned GFA of approximately 150,254 sq.m. The project will comprise standalone villas, high-rise apartments and retail units.

WUXI

Taike Yuan (太科園)

Taike Yuan is a residential development located in Taihu International Scientific and Technology District (太湖國際科技園區). The project is being developed by Wuxi Longhu Properties.

Based on our current plan, the project will occupy a total site area of 188,496 sq.m. and have an aggregate GFA of approximately 311,380 sq.m. The project will comprise high-rise apartments, stand-alone villas, duplex villas, retail units and car parks.

Taike Yuan II (太科園 II)

Taike Yuan II is residential development located in the central part of Wuxi. The project is being developed by Wuxi Jianan Properties.

Based on our current plan, the project will occupy a total site area of approximately 125,404 sq.m. and have a total planned GFA of approximately 393,209 sq.m. The project will comprise duplex villas, high-rise apartments, townhouses and retail units.

Xihu Road (錫山區易買得地块)

Xihu Road Project is mixed-use development located at Xihu Road, Xishan District, Wuxi. The project has access to comprehensive supporting facilities and convenient transportation and is near Xishan District Government as well as Subway Line 2.

Based on our current plan, the project will occupy a total site area of approximately 145,903 sq.m. and have a total planned GFA of approximately 398,158 sq.m. The project will comprise high-rise apartments, low-rise garden apartments, serviced apartments, shopping malls and underground garages.

Jing Hu (無錫淨湖水岸)

Jing Hu is a shopping center development project located in the Wuxi New District, Wuxi. It is the first community shopping center in the Wuxi Software District. It has a convenient multi-layer transportation system that enables reaching across the whole inner city area as well as reaching the nearest city within 30 minutes.

Based on our current plan, the project will occupy a total site area of approximately 27,437 sq.m and have a total planned GFA of 109,452 sq.m.

CHANGZHOU

Qinglong Project (青龍)

Qinglong Project is a residential project located in the Qinglong Living Area (青龍生活區) in Changzhou.

Based on our current plan, the project will occupy a total site area of 164,855 sq.m. and have an aggregate GFA of approximately 280,700 sq.m. This project will comprise high-rise apartments, stand-alone villas, low-rise garden apartments, retail units and car parks.

Qinglong Project II (青龍 II)

Qinglong Project II is a residential project in Changzhou. This parcel of land is located in the Qinglong Living Area (青龍生活區) in Changzhou. This project will be developed by Changzhou Jia'nan.

Based on our current plan, the project will occupy a total site area of 143,965 sq.m. and have a total planned GFA of approximately 470,668 sq.m. This project will comprise high-rise apartments, stand-alone villas, low-rise garden apartments, retail units and car parks.

Hongzhuang Project (洪莊)

Hongzhuang Project is a residential development located in Gulou District, Changzhou. The project is located in the urban area and has access to comprehensive supporting facilities and convenient transportation. The project is being developed by Changzhou Jiayue.

Based on our current plan, the project will occupy a total site area of approximately 294,440 sq.m. and have a total planned GFA of approximately 917,228 sq.m. The project will comprise stand-alone villas, low-rise garden apartments, high-rise apartments and retail units.

Dongjing 120 Project & Dongjing 120 Project II (東經120和東經120II期)

Dongjing 120 Project & Dongjing 120 Project II is a mixed-use development located on the east side of Dongjing 120 Road, Xinbei District, Changzhou, the south side of Hehai East Road, and the west side of Dongzhi River. It is located in the central area of Xinbei District Dinosaur Park Zone, near the China Dinosaur Park and the Dinosaur Valley Hot Spring (the No. 1 hot spring in East China). The project is to the west of the government key project of "Three Rivers, Three Parks," the Dongzhi River Binhe landscape belt and the boat pier. The project is being developed by Changzhou Jiabo and Changzhou Jiateng.

Based on our current plan, the project will occupy a total site area of approximately 384,720 sq.m and have a total planned GFA of approximately 472,489 sq.m. The project comprises courtyard villas, high-rise apartments and shopping area.

HANGZHOU

Chaoshan Project (超山項目)

Chaoshan project is a high-end residential community development project located in the Yuhang District, Hangzhou. It's the first residential project to be built in the Chaoshan scenic area, which is only nine kilometers to the Linping District, Fucheng, Hangzhou.

Based on our current plan, the project will occupy a total site area of approximately 118,051 sq.m and have a total planned GFA of approximately 324,000 sq.m.

Xiasha Project (下沙項目)

Xiasha Project is mixed-use development located in the Hangzhou Economic and Technology Development District. It is close to the Xiasha Station on the Subway Line 1 in Hangzhou which is currently under construction. The project is being developed by Hangzhou Longhu.

Based on our current plan, the project will occupy a total site area of approximately 177,478 sq.m and have a total planned GFA of approximately 823,155 sq.m. The project comprises high-rise apartments, low-rise garden apartments, MOCO units, serviced apartments and a business district (集中商業).

PRIMARY LAND DEVELOPMENT PROJECTS (土地一級開發項目)

Apart from engaging in our development projects, we also actively participate in primary land development activities. Primary land development refers to the process of investing and developing the target land before the land is granted. The process includes compensating the owner for the acquired land, leveling off the land, developing infrastructure and turning land without infrastructure or with incomplete infrastructure or undemolished houses into saleable land which is well equipped with infrastructure and leveled to accommodate the government's urban planning. The subsequent process of further developing the land after completion of primary land development is referred to as secondary land development. As of the date of this offering memorandum, we had one primary land development project in Beijing, the Niu Lan Shan (牛欄山) project, which occupies a total site area of approximately 374,736 sq.m. We seek to acquire the rights to the secondary land developments through public tender, auction or listing-for-bidding.

Chongqing Longhu entered into a joint land renovation and development agreement with the government in 2006 in respect of the Hong'en Si primary land development project and paid a deposit of RMB794 million. As a result of change in the development plan of the relevant region, Chongqing Longhu entered into an agreement to terminate the joint land renovation and development on December 15, 2008 pursuant to which the government had to pay to Chongqing Longhu compensation of RMB1,100 million which shall include the deposit. As of December 31, 2010, Chongqing Longhu had received RMB1,100 million of the compensation.

Based on our current plan, we will continue to be involved in similar projects. We believe that apart from the agreed compensation received from the projects, our participation will enhance our professional image in the area. We believe this will, in turn, increase our potential to acquire the rights to the secondary land developments of these sites when the relevant land is put up for tender.

PROJECT DEVELOPMENT

Roles of Our Headquarters and Regional Companies

We operate under a decentralized corporate structure. While our regional companies enjoy management autonomy in handling project-level operations, our headquarters, which we believe should remain nimble, is in charge of providing overall strategic direction, promoting best practices among regional companies, maximizing economies of scale in sharing capital and market intelligence, nurturing human resources, designing appraisal and incentive systems and controlling risks. As a result, despite our decentralized structure, we share a common corporate culture, work under the same operating system and policies, and are able to redeploy and rotate our managers freely among our operating companies, thereby reducing the possibility of any regional company from becoming overly independent.

In terms of division of labor, our headquarters are responsible for:

- formulating strategy and budgeting;

- building corporate-wide operation and information technology systems;
- deciding on land acquisition and fund-raising;
- setting accounting policies and consolidating financial information;
- setting human resources policies;
- maintaining investor, public and government relations;
- internal control and internal audit; and
- exploring and entering new regional markets.

Our regional companies are responsible for:

- implementing land acquisition decisions;
- obtaining government permits required for project development;
- architectural design and product research and development;
- cost assessment and procurement;
- engineering and managing projects;
- sales and marketing;
- providing property management services;
- managing customer relations; and
- developing and managing rental properties.

The following outlines the key work flows for our property development business.

Site Selection

To ensure the investment return of a project, a site will be selected only after thorough and stringent analysis involving different checks and balances and where certain investment benchmarks, such as project internal rate of return and profit margin, are met.

Site selection is typically conducted via a three-stage process. First, the development department of a regional company is responsible for identifying a potential project, conducting market research and performing a primary screening. Second, should a potential project pass the primary screening, the Project Management Office (“PMO”), which consists of the heads of all the functional departments in charge of different stages of development of the project, will be summoned to conduct an in-depth study based on the collective experience of the parties involved and data extracted from our project database. At this stage, the positioning of the project will be decided, a “pre-final” version of the design drawings will be produced and an in-depth model will be built to calculate the returns of the project under different scenarios. Thereafter, a detailed feasibility study together with the advanced-stage drawings and model will be submitted to the finance department of the headquarters for fact-checking before submitting to the investment decision committee of the headquarters, which consists of the Chief Executive Officer, the Chief Financial Officer and the General Managers of various business functions and regional companies, for its final investment decision.

Land Acquisition

According to the “Regulations on the Granting of State-Owned Land Use Rights through Public Tender, Auction and Listing-for-sale” 《招標拍賣掛牌出讓國有土地使用權規定》, which has been effective since July 1, 2002, all land to be developed for commercial purposes, including for business or residential property development purposes, must be granted through public tender, auction and listing-for-sale. In the case of public tender, the relevant authorities will assess either solely on tender prices or, alternatively, by reference to a matrix of parameters, including tender prices, credit record of the bidders, quality of the development proposals, in determining whom to grant such rights. On the other hand, where land use rights are granted through auction or listing-for-sale, the highest bidder normally wins.

We may enter into letters of intent or framework agreements with the relevant governmental authorities in respect of land development before the process of the tender, auction and listing for sale of the land.

Grantees of land use rights may dispose of their land use rights through private sales, subject to the terms and conditions of the original land use right granting contracts and the relevant PRC laws and regulations. To the extent permitted by law, we may acquire land use rights in the secondary market from third parties through negotiated transfers. We may also obtain such rights by acquiring equity interests in companies that hold the relevant land use rights.

In addition, we also proactively participate in primary land development to enhance our position in acquiring quality land plots. During the process of primary land development, we would try and obtain an in-depth understanding of the condition of the land and other related matters, such as its surrounding area, so as to allow us in gaining additional time for optimal investment planning while demonstrating to the local government our development and financial strengths. These provide us with a competitive advantage in acquiring land in the tender process.

Financing

We rely on internally generated funding including proceeds from pre-sales, proceeds from other investors, bank loans and external fund raising from capital markets, to finance our costs of construction and payments of land grant premiums.

Our policy is to finance our property development projects through internal resources to the extent practicable so as to reduce the level of external funding required. We use the pre-sale proceeds of a project to fund a portion of our project construction costs for such project or to repay bank loans obtained for such project. Under PRC laws, we may pre-sell properties prior to the completion of construction upon satisfaction of certain requirements, though the pre-sale proceeds are required to be used for developing the same project. There are various PRC laws and regulations governing the pre-sale of properties which impose conditions to be fulfilled before the pre-sale of a particular property can commence. These include obtaining the relevant State-owned Land Use Rights Certificates, Planning Permit for Construction Land, Planning Permit for Construction Works, Permit for Commencement of Construction Works and Pre-sale Permit for Commodity Housing.

As of December 31, 2010, our outstanding bank and other borrowings amounted to RMB17.3 billion. We have also entered into joint venture arrangements with members of Hongkong Land Holdings Limited, the ING Real Estate Funds and Aetos Capital, LLC under which significant amounts of equity financings were provided in our joint venture projects.

Project Design

To maximize project value, our regional companies have dedicated in-house professional research and development departments responsible for the overall planning and conceptual design. We constantly send our in-house architects and designers overseas to expose them to new innovative designs and ideas in order to keep them abreast of architectural innovation.

Our architects study the characteristics of each specific site we acquired to lay out the optimal product mix and use of space. Apart from innovative project planning, we have also invested in product innovation. In the past several years, we have successfully designed and launched various types of new products, such as “Spanish-style courtyards” and “sky townhouses.” These products enable our residents to enjoy a spacious, quality environment which would otherwise only be offered by lower density projects. These products were well-received by our customers and we were able to fetch a premium on product prices.

Apart from internal experts, we also retain reputable international architects and designers to assist us in the architectural and interior design. In addition, we hire renowned international landscape designers for the landscape design of our projects.

Contracting, Procurement, Project Management and Quality Control

We outsource substantially all of our construction works to external contractors. As of December 31, 2010, we had engaged approximately 198 general contractors, all of whom are Independent Third Parties and the duration of our relationships with these contractors range from two months to 17 years. We are not engaged in the construction business. Pursuant to the “Law on Tender and Bidding of the PRC” (中華人民共和國招標投標法) and the “Tender Law & the Rules on the Tender Scope & Criteria for Construction Projects” (工程建設項目招標範圍和規模標準規定), we are required to select contractors by way of a tender process in respect of certain construction projects. We have a tender committee which is comprised of our engineering department and our procurement department whereby our engineering department assesses the work quality of the external contractor and our procurement department prepares the tender document.

We conduct the following pre-selection work on contractors before offering construction contracts to them:

- researching and collecting information about prospective contractors via industry associations, industry information centers, recommendations from internal sources and cooperation between contractors and architects;
- narrowing the list of candidates by interviewing them in person or via telephone, and by inspecting and assessing their quality, financial status and business reputation;
- selecting contractors based on assessment results before proceeding with the tender process;
- verifying the management, construction and project capability of the contractors by inviting other entities that have previously worked with them to comment;
- answering queries raised by the contractors in accordance with the tender document;
- inviting contractors to visit the sites of our projects, hold seminars and clearly explain our engineering concepts;

- requesting the contractors to issue letters of undertaking in respect of labor capacity, availability and quality;
- selecting a contractor based on various criteria; and
- supervising the progress during construction and control quality by applying high standards of examination during completion.

Our contractors carry out various construction works including foundation digging, general construction, installation of equipment, as well as decoration and engineering work. The contractors are subject to warranties stipulated in the relevant construction contracts in respect of the quality and construction completion schedule. Under our standard construction contract, contractors are required to pay fines in the event of a delay and bear the costs of curing any construction defects.

We make payment in stages to our contractors in accordance with the terms and conditions as stipulated in the standard construction contract signed between us and the contractors. The percentage of stage payments varies from case to case. In general, the contractors will be paid for approximately 70% to 80% of the work completed on a monthly basis. Upon completion of the project, the contractors will have received approximately 70% to 90% of the total payment. At closing and settlement, we will settle 95% to 98% of the total payment, and retain the remaining 2% to 5% as retention money.

In terms of selecting major construction materials, our procurement department is in charge of price negotiation and assisting the relevant regional company in carrying out the purchase. Through special purpose regional companies, we bulk purchase major construction materials for sale to our project companies within the region for cost control purposes. All our construction materials are held for use in connection with the construction of our projects only. For construction materials that are particularly important to our construction projects, we will seek tenders from various suppliers and will conduct similar quality and pricing assessments.

For each project, the engineering department will set up a project management team with a project manager as the person in charge. Prior to the commencement of the construction works, the project manager will organize the project management team to prepare the “Project Management Guidelines,” “Construction and Supervision Units Screening and Assessment Report,” “Implementation Plan of Access to Water Supply, Electricity and Roads and Land Leveling and Economic Analysis” and “Plan of Project Construction by Phases and Economic Analysis” based on the specific conditions of the project. They will also prepare analysis and reports on the project implementation plan, project staffing, key technical parameters, major difficulties in project construction and risks involved in project construction. These analyses and reports are essential to the overall management and supervision by our headquarters. The construction works of the project will commence only after such analyses and reports have been reviewed and approved by our headquarters and the general manager of the relevant regional company.

We place a great deal of emphasis on quality control and management of our projects. The following are some important measures or procedures we adopt for quality control of our projects:

- we implement a “model adaptation” system where the quality control system of any “model project” will be referred to and adapted for the construction of other projects;
- we have in place a research and development department for each regional company which conducts inspection of the projects under construction and provides comments thereon on a monthly basis;

- we retain qualified professional firms as well as the quality supervision units of the relevant local government authorities to oversee and supervise the overall construction of our projects;
- we compile various sets of standardized technical guidelines for construction management of each project (such as the “Rules on Project Construction Management of Chongqing Company 2007”);
- we carry out quality control in accordance with the relevant laws, regulations, and other compulsory standards promulgated by the relevant PRC governmental authorities and other industry associations; and
- we ensure that our contractors comply with the relevant rules and regulations including environmental, labor, social and safety regulations, and thereby minimize our risks and liabilities by appointing independent construction engineers or our own representatives to supervise the progress of the contractors on site.

Sales and Marketing

The sales and marketing department of each of our regional companies is responsible for marketing our property products. In marketing our products, we focus not only on selling our property products to potential customers, but also on reinforcing and maintaining customer satisfaction during the pre- and post-sales periods by managing the entire purchase and residence cycles of our customers. We target customers who seek a high living standard. We conduct comprehensive monthly market research, surveys and sales analysis. Our headquarters negotiate with the media companies and allocate resources to regional companies. We market our properties mainly by way of outdoor advertising and print media. We place special emphasis on the design and environment of the sales centers and the show flats at the development sites as well as the friendly, helpful and honest attitude of our frontline staff so as to create a memorable shopping experience for our potential customers.

We retain external agents including advertising companies to assist with the marketing of our properties. Our sales and marketing department coordinates with these agents in formulating and executing strategies and plans, and the agents assist and coordinate with our sales and marketing department to achieve various sales targets.

The sales process of our property projects generally begins with pre-sales. We generally pre-sell properties prior to completion of construction and use the sales proceeds as cash flow and for financing our project development. There are various PRC laws and regulations governing pre-sale of properties which impose conditions to be fulfilled before the pre-sale of a particular property can commence. These include obtaining the relevant State-owned Land Use Rights Certificates, Planning Permit for Construction Land, Planning Permit for Construction Works, Permit for Commencement of Construction Works and Pre-sale Permit for Commodity Housing.

Customers Payment Arrangements

Our customers may purchase their property either through one lump sum payment or through mortgage loans. Should our customer choose to make a lump sum payment for the purchase, the customer will be required to fully settle the purchase price shortly after the date of the execution of the contract. Should the customer wish to settle the purchase through mortgage, the customer is required to pay at least 30% to 60% of the purchase price as down payment.

We assist our customers with mortgage loans. Customers may seek mortgage facilities through various banks with which we have made arrangements. We generally provide guarantees as security for mortgage loans from the banks to our customers. Such guarantees will only expire when our customers have obtained the Building Ownership Certificate and the mortgage has been registered in favor of the bank. Timing for the issuance of Building Ownership Certificates to individual purchasers varies depending on where the property is situated. Guarantees provided by us would cover the full value of mortgages granted by the banks to our customers for their purchases and any payment or penalty imposed by mortgagee banks for defaults in mortgage payment by the purchasers. See “Risk Factors — We guarantee the mortgages provided by financial institutions to our purchasers and, consequently, we are liable to the mortgagees if our purchasers default.”

Delivery of Properties

We aim to deliver properties to our customers within the time frame prescribed in the sale and purchase contracts (including the pre-sale contracts). Under the current PRC rules and regulations, we are required to obtain a “Record of Acceptance Examination Upon Project Completion” (竣工驗收備案證明) prior to delivering properties to our customers. As of the date of this offering memorandum, we have complied with such requirement.

The sales and marketing departments of our regional companies are responsible for delivering properties to our customers. There are guidance notes setting out procedures and division of responsibilities among our functional departments to ensure that they work closely together in carrying out instructions and in monitoring the progress of delivery. For example, our engineering department may conduct on-site inspection before delivery and furthermore, we may from time to time arrange for our customers to inspect their purchased property prior to the expected delivery date to ensure the properties meet our prescribed standards as well as our customers’ needs. Our property management companies provide comprehensive pre-sale training to our staff responsible for direct liaison with customers for delivery. We always stay in touch with our customers after delivery to obtain their feedback on future improvement of our products and services.

In general, we assist our customers in applying for strata-title Building Ownership Certificates (分戶產權證). See “Risk Factors — We may encounter delay in issuance and delivery of title documents after sale and such delay may in turn give rise to claims from our customers.”

INVESTMENT PROPERTIES

Over the years, we have developed six shopping arcades, namely North Paradise Walk Mall, Crystal Palace of Crystal Town, Fairy Castle Paradise Walk, West Paradise Walk and MOCO Center in Chongqing and Three Thousand Mall in Chengdu. By the end of 2015, we plan to complete and operate ten additional mid- to large-scale shopping centers with a total area of approximately 1.7 million sq.m. These shopping centers will be located in Chongqing, Chengdu, Xi’an, Beijing, Qingdao, Wuxi, Changzhou, and Hangzhou.

We have accumulated eight years of operational experience of managing commercial properties since 2003. Our main shopping center, the North Paradise Walk Mall (北城天街購物廣場), is regarded as a landmark mall in Chongqing. In 2010, we, as the owner of the North Paradise Walk in Chongqing, were granted the “Best Landlord,” one of only three recipients in PRC, by the China Shopping Center Development Association of Mall China. The commercial properties we operate typically have high occupancy rate and generate steady rental income for us. Our revenue from property investment increased from RMB158.8 million in 2008 to RMB287.3 million in 2010 at a CAGR of 34.5%.

Our operating subsidiaries in each region of the PRC where we have established a business presence will be responsible for conducting market surveys, procuring tenants, and developing and managing commercial properties. Such subsidiaries are currently involved in managing our commercial projects in North Paradise Walk Mall, Crystal Palace of Crystal Town, Fairy Castle Paradise Walk, West Paradise Walk, MOCO Center and Three Thousand Mall.

Our profitability may be subject to fluctuation according to the revaluation of our investment properties. See “Risk Factors — Our financial results for each of the three financial years ended December 31, 2008, 2009 and 2010 included the changes in fair value of investment properties and our results may fluctuate due to such changes.” Depending on the general economic and market conditions, in line with our “Multiple Product, Selected Regional Focus and Compounding Profit” strategy, we intend to further expand our business to the development of investment properties. The following table shows our existing and planned investment property developments till 2015. Whether any of these investment property development will be completed on schedule will be affected by a lot of factors, some of which will be beyond our control.

| Projects⁽¹⁾ | Cities | GFA (sq.m. '000) | Actual Completion Date | Planned Completion Date |
|---|---------------|-----------------------------|---------------------------------------|--|
| North Paradise Walk | Chongqing | 146 | 2003 | — |
| Crystal Palace | Chongqing | 45 | 2005 | — |
| Fairy Castle | Chongqing | 29 | 2006 | — |
| West Paradise Walk | Chongqing | 112 | 2008 | — |
| Three Thousand Mall (Sanqianji) | Chengdu | 38 | 2010 | — |
| MOCO Center | Chongqing | 29 | 2010 | — |
| Crystal Magic Phase 1 / 2 | Chongqing | 518 | — | 2012/2014 |
| North Paradise Walk (Wukuaishi) | Chengdu | 269 | — | 2013 |
| Daxing Paradise Walk | Xi'an | 43 | — | 2013-2014 |
| Summer Palace Paradise Walk | Beijing | 7 | — | 2011 |
| Changying Paradise Walk | Beijing | 287 | — | 2013 |
| Baisha Mall | Qingdao | 109 | — | 2012-2015 |
| Xihu Road (Wuxi Splendor) | Wuxi | 76 | — | 2014 |
| Taikeyuan II | Wuxi | 109 | — | 2014 |
| Dongjing 120 Project II | Changzhou | 127 | — | 2015 |
| Rose and Ginkgo Villa (Xiasha Mall) | Hangzhou | 183 | — | 2013 |

PROPERTY MANAGEMENT

We place great emphasis on property management as we believe it enhances property value for our customers and improves our brand name. We predominantly provide property management services to our customers through our own property management companies. Our property management teams normally get involved in the early stage of property development and participate throughout the overall design planning stage to minimize future maintenance costs. We charge our customers management fees on a monthly or quarterly basis.

We believe we have a strong property management team. We offer our team members attractive remuneration packages as well as frequent training to update them on the relevant skills and knowledge required in property management. In providing property management services, we embrace a concept of “For you forever” (善待你一生) and we are committed to providing all our property owners with comprehensive and considerate professional property management services. We conduct semi-annual customer surveys on our management performance. We obtained the ISO 9002 certification in recognition of our quality property management in 1998.

(1) Some project names are not final and are subject to change.

Under PRC law, owners have a right to engage or dismiss a property management company if owners together holding exclusive parts within the managed area representing more than half of the total area of buildings and owners representing more than half of the total number of owners agree.

PROPERTIES FOR SELF-OCCUPATION

Our corporate headquarters are located in Fusheng Building, No.4 Huixin East Street, Chaoyang District, Beijing, PRC. We rent our headquarters from an Independent Third Party for a term commencing on April 1, 2008 and expiring on March 31, 2013. We also maintain offices in Chongqing, Chengdu, Beijing, Shanghai, Xi'an, Shenyang, Wuxi, Qingdao, Hangzhou and Hong Kong where we have operations. Such offices are located in leased properties owned by independent third parties or in our own properties, particulars of which are summarized below:

| | Property | Occupancy Status | Lease term |
|-----|--|------------------|--|
| 1. | No. 4 Huixin East Street, Fusheng Building, Block 2, 7/F, Chaoyang District, Beijing 100029, PRC | Leased | April 1, 2008 to March 31, 2013 |
| 2. | No. 4 Huixin East Street, Fusheng Building, Block 1, 3/F, Chaoyang District, Beijing 100029, PRC | Leased | April 1, 2007 to May 9, 2013 |
| 3. | 10F, No.26, 168 Daduhe Road, Shanghai, PRC | Leased | August 1, 2010 to September 30, 2014 |
| 4. | No. 38 Hongji Middle Road, Jinjiang District, Chengdu, PRC | Self-owned | N/A |
| 5. | 39/F, Zhaohang Building, No. 1, Gaoxin Road the Second, Gaoxin District, Xi'an, PRC | Leased | November 20, 2010 to November 19, 2015 |
| 6. | 6-7/F, New Star Building, No. 4 Beichengtianjie, Jiangbei District, Chongqing, PRC | Self-owned | N/A |
| 7. | 15th Floor, 1 Duddell Street, Central, Hong Kong | Leased | February 15, 2008 to February 15, 2013 |
| 8. | Building 8, No. 77 East Jinghui Road, T-Park, New District, Wuxi, PRC | Leased | July 15, 2009 to July 14, 2015 |
| 9. | No. 124-2, Renhe Street, Shenbei District, Shenyang, PRC | Leased | September 1, 2009 to September 1, 2011 |
| 10. | 345-2-Zhongcheng Road, Haidu Business Center, Chengyang District, Qingdao, PRC | Leased | April 1, 2010 to March 31, 2013 |
| 11. | 21/F, Hydra Block No. 2, Singapore Hangzhou Science & Technology Park, Hangzhou, PRC | Leased | April 16, 2010 to April 15, 2015 |

In addition to the above, we also have other leased properties in the PRC which are being used by our regional companies.

SUPPLIERS AND CUSTOMERS

Our major suppliers are construction material suppliers and construction contractors, and the five largest suppliers accounted for approximately 10.4%, 16.9% and 8.3% of our total purchases for the three financial years ended December 31, 2008, 2009 and 2010, respectively. Our single largest supplier for the three financial years ended December 31, 2008, 2009 and 2010 accounted for approximately 3.1%, 5.4% and 2.5% of our purchases, respectively. Our five largest customers accounted for approximately 2.1%, 0.7% and 2.6% of our total revenue for the three financial years ended December 31, 2008, 2009 and 2010, and our single largest customer accounted for approximately 0.5%, 0.2% and 0.8%, respectively, of our total revenue during those periods.

COMPETITION

Competition in the PRC property market has intensified over the past few years. We compete against state-owned, privately owned and international developers in the PRC. Key competitive factors include the size and the geographic location of land reserves, the types of properties offered, brand recognition, price, and design and service qualities.

We believe that the PRC property market has large growth potential. However, different regions of the PRC have different regulatory restrictions on property development and consumer preference typically varies between different regions of the PRC. We therefore utilize a “Multiple Products, Selected Regional Focus and Compounding Profit” strategy to develop our business by undertaking various development projects and selling different types of properties in an effort to capture a leading market position in each regional market. We ranked:

- first in Chongqing, in terms of both contract sales and GFA of residential properties sold from 2005 to 2010, according to China Index Academy, CRIC and dichan.sina.com.cn;
- second in Beijing, in terms of contract sales of residential properties in 2010, according to CRIC;
- third in Chengdu, in terms of contract sales of residential properties in 2010, according to CRIC; and
- second in Changzhou, third in Wuxi and ninth in Qingdao in terms of contract sales of residential properties in 2010, the same year when we first launched pre-sales in these markets, according to CRIC.

We believe that, with our solid and strong foothold in multiple regions, diversified product portfolio, expertise in both development as well as investment properties, we are less vulnerable to changes in market condition. Further, given our brand recognition, product creativity, credibility, reputation, quality products and services and our excellent management skills in developing properties in the past years, we believe we can react promptly to the challenges in the PRC property market.

INTELLECTUAL PROPERTY

We believe our well-known brand, as formally recognized on a national level, is an invaluable asset. In March 2008, our trademark “Longhu” (“龙湖”) was awarded a Well-known Trademark in China by the State Administration for Industry and Commerce of the People’s Republic of China (“SAIC”). We have built up our brand through consistent delivery of high-quality services and products of various types. We will use all reasonable and proper measures to protect our proprietary rights with regard to intellectual property developed in the process of our business development. We have made applications in respect of innovative designs of certain of our projects. For example, our vertical split-level garden apartments features low density and high construction quality in a compact layout and the design was awarded a patent in the PRC.

Under Hong Kong law, a person or entity may acquire statutory protection in a trademark by registering the name with the Trade Marks Registry. As of the date of this offering memorandum, we have registered the following trademarks with the Hong Kong Trade Marks Registry:

(A) 

(B) 

(C) 

(D) 

We have also registered various Internet domain names related to our company and our brand names.

INSURANCE

We maintain assets insurance policies for our properties and assets. We effect all-risk insurance and third-party insurance for certain of our projects under development (including our investment properties), as we did in the first and second phases of the Bamboo Grove and the Chunsen Land projects. We maintain insurance policies including property all-risk insurance, public liability insurance, and loss of profit insurance with respect to our investment properties, including insurance coverage for damages arising from or in connection with the occurrence of an earthquake where any amount so claimed exceeds RMB400,000. Our insurance policies cover two property projects under construction, namely the Bamboo Grove project and the Chunsen Land project in Chongqing, for damages arising from or in connection with the occurrence of an earthquake.

We have also contributed to social insurance for our employees as required by the PRC social security regulations such as a pension contribution plan, medical insurance plan, unemployment insurance plan and work-related injury insurance plan. Our insurance policies cover all our employees for injuries arising from or in connection with the occurrence of an earthquake.

To help ensure construction quality and safety, we engage qualified professional firms as well as the quality supervision units of the relevant local government authorities to oversee the construction process. For further information, see “— Contracting, Procurement, Project Management and Quality Control.” Under the current PRC regulatory regime, property construction companies are responsible for quality and safety control during the construction period and are required to take out accident insurance for construction workers carried out at construction sites. We deduct quality assurance reserve funds for the construction project from the construction payment to the property construction companies. We have taken steps, as described above, to prevent construction accidents and personal injuries. Furthermore, under PRC law, construction companies bear primary civil liability where they are responsible for causing personal injuries, accidents and death arising out of their construction work, unless they can prove themselves not at fault. The owner of a construction property may also bear civil liability where he is responsible for causing the personal injuries and deaths, unless he can prove himself not at fault.

ENVIRONMENTAL MATTERS

Property developers are subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by the relevant local government authorities.

Each of our property development projects is required under PRC law to undergo environmental assessments. We submit the relevant environmental impact study, report or environmental impact analysis table to the environmental authorities before approval is granted for commencement of construction of our projects. In obtaining approval, an entity must have filed, during the phase of feasibility study of the construction project, an environmental report of the construction project, an environmental impact report and an environmental impact registration form (collectively, "EIE Documents"). All EIE Documents are subject to the approval of the authorized environmental protection administrations. If, following the approval of such environmental impact evaluation documentation, the nature, scale, location and applied production technique of the project undergo substantial changes or, for whatever reason, the construction project does not start within five years of the approval date of the EIE Documents, the construction entity must re-submit such EIE Documents for approval. The approval from the relevant government authorities specifies the standards applicable to the implementation of the construction works as regards to air pollution, noise emissions and water and waste discharge and we enforce these conditions while the construction project is in progress. Such measures are required to be incorporated into the design, construction and operation of the general constructions. Upon completion of each property development, the relevant government authorities also inspect the site to ensure that applicable environmental standards have been complied with, and the resulting reports are then presented together with other specified documents to the local construction administration authorities for their records.

Construction waste is produced by all our projects. We have obtained approvals on all EIE Documents submitted in relation to our projects. Furthermore, we have obtained ISO 14001: 1996 certification in recognition of the quality of our environmental performance of our Fragrant Forest project and we have successfully renewed this certification each year since.

Specific measures taken by us to ensure our compliance with applicable environmental laws and regulations include conducting noise level tests, electro-magnetic radiation level tests, and concrete fillers tests, inspecting the construction materials on site and removing materials which do not comply with environmental laws and regulations, conducting weekly sampling and additional sampling on site to ensure compliance and immediately requiring contractors to rectify any problems. Construction contractors are responsible for compliance with applicable environmental laws and regulations during the construction stage.

We encourage our contractors to use equipment and facilities and to adopt or develop new technologies which are more environmentally friendly. Although inventing environmental protection technology is beyond the scope of our business, we are highly conscious of the need for environmental protection and will always look to adopt new technologies that are helpful in protecting the environment. For example, we have engaged and consulted environmental specialists and we impose contractual obligations on contractors requiring them to comply with environmental laws and regulations and to use only products and technologies which are in compliance with environmental laws and regulations.

LEGAL PROCEEDINGS

We have been involved in litigation proceedings in the past concerning the quality of our products and services or contractual arrangements with our external contractors which, in our view, are immaterial in terms of their impact on our financial and operational conditions. These litigation proceedings have all been settled or otherwise aborted. In addition, we are subject to

legal or arbitration proceedings, disputes or claims in the ordinary course of business. None of our directors has been or is currently subject to any legal proceedings, legal disputes or arbitration procedures and there is no other litigation or claim of material importance pending or threatened against any member of us.

LABOR AND SAFETY

According to the Labor Law of the PRC 《中華人民共和國勞動法》, the Labor Contract Law of the PRC 《中華人民共和國勞動合同法》 and the Implementing Regulations of the Labor Contract Law of the PRC 《中華人民共和國勞動合同法實施條例》, labor contracts shall be concluded if labor relationships are to be established between our employees and members. We must provide wages which are no lower than local minimum wage standards to the employees from time to time. We are required to establish a system for labor safety and sanitation, strictly abide by State rules and standards and provide relevant education to our employees. We are also required to provide our employees with labor safety and sanitation conditions that satisfy or meet State rules and standards and carry out regular health examinations of our employees engaged in hazardous occupations.

As required under Social Insurance Law of People's Republic of China 《中華人民共和國社會保險法》, the Regulation of Insurance for the Interim Regulations on Collection and Payment of Social Insurance Premiums 《社會保險費徵繳暫行條例》, the Regulations on Work-related Injury Insurances 《工傷保險條例》, the Regulations on Unemployment Insurance 《失業保險條例》, the Trial Procedures for Childbirth Insurance for Enterprise Employees 《企業職工生育保險試行辦法》 and the Regulations on the Administration of Housing Accumulation Funds 《住房公積金管理條例》, we provide our employees in the PRC with a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing accumulation funds.

According to the Safety Production Law of the PRC 《中華人民共和國安全生產法》 enacted by the Standing Committee of the National People's Congress on June 29, 2002 and enforced on November 1, 2002, entities that are engaged in production and business operation activities within the PRC shall observe all relevant laws, rules and regulations concerning production safety and establish and perfect the conditions and system of responsibility for production safety. It requires that entities shall maintain conditions for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities. It also requires entities to offer education and training programs to their employees regarding production safety. The design, manufacture, installation, use, checking and maintenance of safety equipment is required to conform with applicable national or industrial standards. In addition, it requires entities to provide labor protection equipment that meets the national or industrial standards to employees and to supervise and educate them to wear or use such equipment according to the prescribed rules.

Our human resources department is responsible for dealing with employees' safety and security matters. We are planning to further strengthen and improve our systems and management in respect of labor and safety in all respects in order to reduce potential future risks in this regard. Measures taken by us to comply with the above-mentioned applicable laws and regulations include requiring the contractors to prepare a work safety implementation plan; requiring the contractors to comply with our onsite work safety requirements; paying for work safety related expenses; distributing work safety protection gear to workers; imposing a contractual obligation on the contractors to comply with work safety guidelines and consider related expenses; appointing experienced personnel to conduct weekly and additional work safety inspections and supervision; and ensuring the workers have the prerequisite qualifications for special construction work.

REGULATION

The following discussion summarizes the principal laws, regulations, policies and administrative directives to which we are subject.

The PRC Legal System

The PRC legal system is based on the PRC Constitution and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules of the ministries and commissions under the State Council, rules of the local governments, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court verdicts do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC, or NPC, and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil, criminal and other matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative regulations. The ministries and commissions under the State Council are also vested with the power to issue rules within the jurisdiction of their respective departments. All administrative regulations and rules promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC and the Standing Committee of the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative regulations and the State Council has the power to annul rules.

At the regional level, the people's congresses and their respective standing committees of the provinces, autonomous regions and municipalities may enact local regulations and the people's governments of the provinces, autonomous regions, municipalities and comparatively large cities may promulgate rules applicable to their own administrative areas. These local regulations and rules must be consistent with the PRC Constitution, the national laws and the administrative regulations promulgated by the State Council. The people's congresses or their standing committees of the comparatively larger cities may, in light of the specific local conditions and actual needs, formulate local regulations, provided that they do not contradict the PRC Constitution, the national laws, the administrative regulations and the local regulations of their respective provinces or autonomous regions, and they shall submit the regulations to the standing committees of the people's congresses of the provinces or autonomous regions for approval before implementation.

The State Council may also enact or issue administrative regulations in new areas of the law for experimental purposes. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed in June 1981, the Supreme People's Court has the power to give general interpretation on the application of laws in judicial proceedings. The State Council and its ministries and

commissions are also vested with the power to interpret administrative regulations and rules that they have promulgated. At the regional level, the power to interpret local regulations is vested in the regional legislative bodies which promulgate such regulations. The regional administrative bodies have the power to interpret the enforcement of such local regulations.

The PRC Judicial System

Under the PRC Constitution and the Law of Organization of the People's Courts (中華人民共和國人民法院組織法) passed on July 1, 1979 and amended on October 31, 2006, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts. The local courts are comprised of the primary courts, the intermediate courts and the higher courts. The primary courts are organized into civil, criminal, economic and administrative divisions. The intermediate courts are organized into divisions similar to those of the basic courts, and are further organized into other special divisions, such as the intellectual property division. The higher level courts supervise the primary and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the lower levels. The Supreme People's Court is the highest judicial body in China. It supervises the administration of justice by all other courts.

The civil trial system of PRC follows a two-tier appellate system. A party may appeal against a civil judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the next higher level are final. First civil judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a court at a higher level finds an error in an effective judgment which has been given in any court at a lower level, or the president of a court finds an error in an effective judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) adopted in April 1991 and amended on October 28, 2007 sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action. However, such selection can not violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of such judgment, order or award within two years. If any party fails to satisfy a civil judgment or order made by the court within the stipulated time, the other party may apply to a people's court for enforcement, or the judge in charge of such case may transfer such judgment or order to the enforcement personnel for enforcement.

A party seeking to enforce a civil judgment or order of a people's court against a party who is not located within the PRC or does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of such judgment or order. When a legally effective judgment or ruling made by foreign court requires recognition and enforcement by a people's court in the PRC, a party concerned may apply directly to a competent intermediate people's court for recognition and enforcement, or a foreign court may, in accordance with the provisions of the international treaties concluded between or acceded to by the foreign country

and the PRC or according to the principle of reciprocity, request the people's court for recognition and enforcement. Any judgment or ruling will result in a violation of the basic legal principles of the PRC, the State's sovereignty, security, or the social and public interests shall not be recognized or enforced.

Establishment of a Real Estate Development Enterprise

According to the PRC Law on Administration of Urban Real Estate (城市房地產管理法) promulgated by the National People's Congress, effective on January 1, 1995 and amended on August 30, 2007, a real estate developer is defined as an enterprise that engages in the development and operation of real estate for the purpose of making profits. Under the Regulations on Administration of Development of Urban Real Estate (城市房地產開發經營管理條例) promulgated by the State Council on July 20, 1998, an enterprise that is to engage in development of real estate must satisfy the following requirements:

- its registered capital must be RMB 1 million or more; and
- it must have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom must hold the relevant qualification certificate.

The local government of a province, autonomous region or municipality directly under the PRC central government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a real estate developer.

To establish a real estate development enterprise, the developer must apply for registration with the administration for industry and commerce. The developer must also report its establishment to the real estate development authority in the location of its registration, within 30 days of the receipt of its business license. Where a foreign-invested enterprise is to be established to engage in the development and operation of real estate, it must also comply with the relevant requirements under the PRC laws and administrative regulations regarding foreign-invested enterprises and apply for approvals relating to foreign investments in China.

Under the Catalog of Guidance on Industries for Foreign Investment (外商投資產業指導目錄) jointly promulgated by MOFCOM and NDRC on October 31, 2007 and enforced on December 1, 2007, the real estate industry under restricted category has been adjusted as the following:

- the development of a large scale of land lots shall be operated by sino-foreign equity joint venture or sino-foreign cooperative joint venture only;
- the construction and operation of high-end hotels, villas, premium office buildings and international conference centers; and
- real estate transaction in second-grade market, housing agents and brokerages.

A foreign investor intending to engage in the development and sale of real estate in China may establish an equity joint venture, a cooperative joint venture or a wholly foreign owned enterprise by the foreign investor in accordance with the PRC laws and administrative regulations governing foreign-invested enterprises.

Under the Notice on Adjusting the Portion of Capital Fund for Fixed Assets Investment of Certain Industries (關於調整部分行業固定資產投資項目資本金比例的通知) issued by the State Council on April 26, 2004, the portion of capital-account funding for real estate projects (excluding affordable housing projects) has been increased from 20% or above to 35% or above. However, pursuant to the Notice on Adjusting the Percentage of Capital Fund for Investment

Projects in Fixed Assets (關於調整固定資產投資項目資本金比例的通知) issued by the State Council on May 25, 2009, the minimum portion of the capital funding for ordinary commodity housing projects and affordable housing projects has been reduced to 20%, while the portion for other real estate projects has been decreased to 30%.

On July 11, 2006, MOC (currently known as MOHURD), MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued an Opinion on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market (關於規範房地產市場外資准入和管理的意見), which provides, among other things, that:

- (a) An overseas entity or individual investing in real estate in China other than for self-use must apply for the establishment of a FIREE in accordance with applicable PRC laws and the FIREE may only conduct operations within the authorized business scope.
- (b) If the total investment of a FIREE exceeds or equals to USD10 million, the registered capital must not be less than 50% of the total investment. If the total investment is less than USD10 million, the amount of the registered capital shall follow the existing regulations.
- (c) For the establishment of a FIREE, the commerce authorities and the department of administration of industry and commerce are in charge of granting approval for establishment and effecting registration of the foreign-invested property development enterprise and issuing the approval certificate for a Foreign Investment Enterprise and the Business License which are only effective for one year. After settlement of the land premiums, the enterprises should apply for the Grant of State-owned Land Use Rights certificate by presenting the above-mentioned certificate and license. With the land use rights certificate, the enterprises will receive an official approval certificate for a Foreign Investment Enterprise from the commerce authorities, and shall replace the Business License with one that has the same operation term as the formal Approval Certificate for Foreign Investment Enterprise in the department of administration of industry and commerce, and then it shall apply for tax registration with the tax authorities.
- (d) Transfers of projects of or shares in FIREE, and the acquisitions of domestic real estate enterprises by foreign investors should follow strictly the relevant laws, regulations and policies to obtain the approvals. The investor should submit: (i) the guarantee letters for the performance of the Grant of State-owned Land Use Right, the Planning Permit for Construction Land and Construction Work Planning Permit; (ii) Certificate of Land Use Right; (iii) the certification on alteration of archival files issued by construction authorities; and (iv) the certification on the payment of tax issued by the relevant tax authorities.
- (e) While merging and acquiring domestic real estate enterprises by way of share transfer or other means, or the purchase of shares from the Chinese party in a sino-foreign equity joint venture, the foreign investors shall properly resettle the employees, settle the bank loans and pay all the consideration at a time with its internal fund. The foreign investors with unfavorable record shall not be allowed to conduct any of the aforesaid activities.

On May 23, 2007, MOFCOM and SAFE issued the Circular on Strengthening and Regulating the Examination and Approval and Supervision of Foreign Direct Investment in the Real Estate Sector (關於進一步加強、規範外商直接投資房地產業審批和監管的通知), or Circular 50. Under Circular 50:

- (a) Foreign investment in the real estate sector in the PRC relating to high-end properties should be strictly controlled.

- (b) Prior to applying for establishment of FIREEs, foreign investors must first obtain land use rights, property ownership, or have entered into pre-sale or pre-granting agreements with the land administration authority or property developer/owner.
- (c) Acquisition of or investment in domestic real estate enterprises by way of round-trip investment (including the same actual controlling person) shall be strictly controlled. Further, Overseas investors may not avoid approval for foreign investment in property by way of changing the actual controlling person of the domestic real estate enterprise. Once the foreign exchange authority has found the foreign-invested property enterprise established by way of deliberately avoiding and false representation, it shall take action against the enterprise's conduct of remittance of capital and interest accrued without approval, and the enterprise shall bear the liability for cheated purchase and evasion of foreign exchange.
- (d) Shareholders of FIREEs are prohibited from guaranteeing a fixed return or the same effect to the other party in any way.
- (e) If foreign-invested enterprises in China engage in real estate development or operations or if FIREEs in China engage in new real estate project developments, they must first apply to the examination and approval authorities for their expansion of scope of business or scale of operations in accordance with the PRC laws and regulations related to foreign investments.
- (f) The local examination and approval authorities must file with MOFCOM their approvals of establishment of FIREEs for record, and must exercise due control over foreign investments in high-end properties.
- (g) For those FIREEs which fail to pass the joint annual inspection of foreign-invested companies and have not completed the required filing with the MOFCOM, local SAFE administrations and designated foreign exchange banks must not permit any foreign exchange sales and settlements under such FIREEs' capital account.
- (h) MOFCOM shall have the right to investigate and rectify the approvals of FIREEs which are not in compliance with the laws and regulations made by local examination and approval authorities, and SAFE shall not handle the foreign exchange registration for such FIREEs.

On July 10, 2007, SAFE issued a Circular on the Distribution of the List of the First Group of Foreign Invested Real Estate Projects Filed with MOFCOM (關於下發第一批通過商務部備案的外商投資房地產項目名單的通知), or Circular 130, together with a list of FIREEs that had effected their filings with MOFCOM. According to Circular 130, (a) For a foreign-invested real estate enterprise (both newly established and through capital increase, same below) which has obtained the approval certificate from the competent commercial department and filed with MOFCOM after and including June 1, 2007 (same below), the local Administration of Foreign Exchange will not conduct the foreign debt registration and foreign debts settlement approval process; (b) For a foreign-invested real estate enterprise which has obtained the approval certificate from the local competent commercial department but failed to file with MOFCOM after and including June 1, 2007, the local Administration of Foreign Exchange will not conduct foreign exchange (or change the registration) and the settlement and sales process for capital projects.

In connection with the filing requirement, MOFCOM issued the Notice on the Proper Filings of Foreign Investment in the Real Estate Sector (關於做好外商投資房地產業備案工作的通知) on June 18, 2008 to authorize the competent MOFCOM's branch at the provincial level to verify and check the filing documents.

Moreover, on November 22, 2010, MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into Real Estate Industry (關於加強外商投資房地產業審批備案管理的通知), which provides that, among other things, in the case that a real estate enterprise is established within the PRC with oversea capital, it is prohibited to purchase and/or sell real estate properties completed or under construction within the PRC for arbitrage purposes. The local MOFCOM authorities are not permitted to approve investment companies to engage in the real estate development and management.

According to the Several Opinions of the State Council on Further Strengthening the Utilization of Foreign Investment (國務院關於進一步做好利用外資工作的若干意見), promulgated by the State Council on April 6, 2010, and the Notice on Delegation of Power of Approval for Foreign Investment Projects (關於做好外商投資項目下放核准權限工作的通知), promulgated by NDRC on May 4, 2010, except where approval by the relevant departments under the State Council is required by the Catalog for Guidance on Industries for Foreign Investment, foreign investment in encouraged and permitted industries with a total investment of less than US\$300 million will be examined and approved by NDRC's branches at the provincial level. Pursuant to the Notice on Issues Related to Delegation of Powers of Examination and Approval of Foreign Investment to Authorities at Lower Levels (關於下放外商投資審批權限有關問題的通知), promulgated by MOFCOM on June 10, 2010, MOFCOM's branch at the provincial level is responsible for the examination and approval of establishments and changes of foreign-invested enterprises in encouraged or permitted industries with a total investment of less than US\$300 million and with a total investment of less than US\$50 million in restricted industries.

Qualifications of a Real Estate Developer

Under the Provisions on Administration of Qualifications of Real Estate Developers (房地產開發企業資質管理規定), or the Provisions on Administration of Qualifications, promulgated by MOC on March 29, 2000, a real estate developer must apply for registration of its qualifications according to such Provisions on Administration of Qualifications. An enterprise may not engage in property development without a qualification classification certificate for real estate development. MOC (currently known as MOHURD) oversees the qualifications of real estate developers with national operations, and local real estate development authorities at or above the county level oversee the qualifications of local real estate developers.

In accordance with the Provisions on Administration of Qualifications, real estate developers are classified into four classes: class 1, class 2, class 3 and class 4.

- Class 1 qualifications are subject to preliminary examination by the construction authorities at the provincial level and final approval of MOHURD. A class 1 real estate developer is not restricted as to the scale of its real estate projects and may undertake a real estate development anywhere in the country.
- Class 2 or lower qualifications are regulated by the construction authorities at the provincial level subject to delegation to lower level government agencies. A real estate developer of class 2 or lower may undertake a project with a gross floor area of less than 250,000 square meters subject to confirmation by the construction authorities at the provincial level.

Under the relevant PRC laws and regulations, the real estate development authorities will examine applications for registration of qualifications submitted by real estate developers by considering the professional personnel in their employ, financial condition and operating results. A real estate developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. A developer of any qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business which is limited to another classification.

For a newly established real estate developer, the real estate development authority will issue a provisional qualification certificate, if it is an eligible developer, within 30 days of receipt by the authority of the application. The provisional qualification certificate will be effective for one year from its date of issue and may be extended for not more than two additional years with the approval of the real estate development authority. The real estate developer must apply for qualification classification to the real estate development authority within one month before expiration of the provisional qualification certificate.

Development of a Real Estate Project

According to the Interim Provisions on Approving Foreign Investment Project (外商投資項目核准暫行管理辦法) promulgated by NDRC on October 9, 2004, approval of NDRC is required for foreign investment projects with total investment (including the amount of capital increase, the same below) of US\$100 million or more within the category of encouraged or permitted foreign investments and those with total investment of US\$50 million or more within the category of foreign investments subject to restrictions. Other foreign investments in China will require only local approval. Specifically, the local authorities may examine and approve foreign investment projects with total investment less than US\$100 million within the category of encouraged or permitted foreign investments and those with total investment less than US\$50 million within the category of foreign investments subject to restrictions. Furthermore, after examination by NDRC, approval of State Council is required for foreign investment projects with total investment of US\$500 million or more within the category of encouraged or permitted foreign investments and those with total investment of US\$100 million or more within the category of foreign investments subject to restrictions. In addition, the projects subject to restrictions should be approved by the development and reform authority at provincial level. Under the Catalog for Guidance on Industries for Foreign Investment promulgated by MOFCOM and NDRC in October 31, 2007, foreign investments are restricted in the development of a whole land lot and the construction and operation of high-end hotels, villas, premium office buildings and international conference centers in the PRC; and foreign investments are permitted in other real estate developments. In July 2008, NDRC issued the Notice on Further Reinforcing and Regulating the Administration of Foreign Investment Projects (關於進一步加強和規範外商投資項目管理的通知), which further requires that the capital-increase and reinvest projects of the foreign-invested enterprises shall get the approval from NDRC or its local counterpart. On May 4, 2010, NDRC issued the Notice on Delegation of Power of Approval for Foreign Investment Projects (關於做好外商投資項目下放核准權限工作的通知), which provides that except where approval by the relevant departments under the State Council is required by the Catalog for Guidance on Industries for Foreign Investment, foreign investment in encouraged and permitted industries with a total investment of less than US\$300 million will be examined and approved by NDRC's branches at the provincial level.

According to the "Urban and Rural Planning Law of the People's Republic of China" (中華人民共和國城鄉規劃法) enacted by the Standing Committee of the National People's Congress on October 28, 2007 and enforced on January 1, 2008, which repealed the "City Planning Law of the People's Republic of China" (中華人民共和國城市規劃法) enacted by the Standing Committee of the National People's Congress on December 26, 1989 and enforced on April 1, 1990, and the "Measures for Planning Administration of Granting and Transfer of Right to Use Urban State-owned Land" (國有土地使用權出讓轉讓規劃管理辦法) enacted by the Ministry of Construction on December 4, 1992 and enforced on January 1, 1993 and the "Notice of the Ministry of Construction on Strengthening the Planning Administration of Granting and Transferring Right to Use State-owned Land" (建設部關於加強國有土地使用權出讓規劃管理工作的通知) enacted and enforced by the Ministry of Construction on December 26, 2002, after signing a Grant of State-owned Land Use Right, a property developer shall apply for the Planning Permit for Construction Land (建設用地規劃許可證) from the city and county planning authority under the people's government with the granting contract and the relevant documents of approval, assessment, record for the proposed real estate project. The granting contract without any

provisions relating to land planning will be invalidated. In cases where the construction site of buildings, roads, pipelines or other types is located in a planning zone of a city or county, the construction enterprises or individuals shall apply for a Planning Permit for Construction Works (建設工程規劃許可證) from the city/county planning authority or a people's government at village level designated by the provincial people's governments. Under the "Urban and Rural Planning Law of the People's Republic of China," governments above the county level are entitled to withdraw the relevant approval documents when any permit for access to or use of the land is granted to the developer before obtaining the land planning permit; land occupied shall be returned immediately and the compensation shall be paid when damages to parties concerned have resulted. This law also emphasizes the preservation of natural resources and historical and cultural estates, and the maintenance of local and national characteristics and tradition.

In accordance with the Regulations for the Administration of Demolishment and Removal of Urban Housing (城市房屋拆遷管理條例) promulgated by the State Council on June 13, 2001, if demolition of existing structures and removal of existing residents on the construction site need to be conducted before commencement of construction of the real estate project contemplated, the developer may apply to the local municipal, district or county level government in the place where the real estate is located for a permit for demolition and removal. Upon approval, the local government will issue a demolition and removal permit and post a demolition and removal notice to inform the inhabitants of the area subject to demolition. The designated demolition and removal party, either a local government entity or a developer, must implement the demolition and removal within the area and period specified in the demolition and removal permit. If the demolition and removal party fails to complete the demolition and removal works within the permitted period, it may, within 15 days prior to the expiration of the permit, apply to the original approval department in charge of demolition and removal for an extension.

During the demolition and removal period announced by the department in charge of demolition and removal, the demolition and removal party and the parties subject to demolition and removal will enter into a written agreement for compensation and resettlement in respect of the demolition and removal. If the demolition and removal party and the parties subject to demolition and removal cannot reach an agreement, any such party may apply to the original approval department in charge of the demolition and removal for a ruling. Such a ruling must be rendered within 30 days of the application. If any such party disagrees with the ruling, it may initiate proceedings in a People's Court in China. Pursuant to current PRC laws, if the demolition and removal party has provided proper monetary compensation or proper replacement housing to the parties subject to demolition and removal, the demolition and removal may not be stopped.

Compensation for demolition and removal may be effected by way of monetary compensation or exchange of property rights. If the monetary compensation method is used, the amount of compensation is assessed on the basis of the real property market price determined by the location, uses and the gross floor area of the housing to be demolished. If property exchange or replacement is used, the demolition and removal party and the parties subject to demolition and removal will, on the basis of the location, usage and the gross floor area of the housing to be demolished and the housing offered for exchange or replacement, calculate the amount of compensation for the housing to be demolished, the price of the housing to be exchanged or replaced for the housing to be demolished, and work out the difference between the two. In addition to paying the demolition and removal compensation, the demolition and removal party will also pay removal allowance to the parties subject to demolition and removal.

In order to prevent illegal demolition and removal, and overheating investment in some areas, the General Office of the State Council issued the Notice on Controlling the Scale of Demolishment and Removal and Strengthening Administration of Demolition and Removal 《關於控制城鎮房屋拆遷規模嚴格拆遷管理的通知》 on June 6, 2004. The notice addresses issues

including, but not limited to, the following: (i) strictly controlling the area of demolition and removal to ensure that the total area of demolition and removal is less than that of the previous year; (ii) strictly administering the procedures of demolishment and removal so that the process is carried out in an open, fair and just manner; (iii) strengthening the supervision and administration of the compensation costs incurred for the demolishment and removal, and ensuring the completion of the relocation; and (iv) strictly punishing certain illegal actions in relation to demolition and removal.

When the site has been properly prepared and is ready for the commencement of construction works, the developer must apply for a permit for commencement of works (**Construction Permit**) from the construction authorities at or above the county level according to the Measures for Administration of Granting Permission for Commencement of Construction Works (建築工程施工許可管理辦法) promulgated by MOC on October 15, 1999, as amended on July 4, 2001. However, in cases where the investment amount is less than RMB300,000 or the construction area is less than 300 sq.m., such property projects are not required to obtain a Construction Permit. For a property project which shall be applied for a Construction Permit as required by the aforesaid regulations, the real estate developer shall not start to construct without a Construction Permit.

On November 1, 1997, the Construction Law of the People's Republic of China (中華人民共和國建築法) was promulgated by the 28th Meeting of the Standing Committee of the Eighth National People's Congress, which became effective as of March 1, 1998. A summary of the important provisions in respect of construction production safety management in the Construction Law is set forth below:

- Construction project production safety management must adhere to the policy of safety first and prevention first, and must establish and perfect a system of production safety. Construction project design shall conform to the construction safety procedures and technical standards formulated in accordance with state provisions to ensure the safe execution of the project.
- A building construction enterprise shall work out corresponding safety technical measures according to the characteristics of each construction project when developing its construction plans; for specialty-intensive items of the project, special-purpose designs for safe construction shall be compiled and safety technical measures taken. A building construction enterprise shall take such measures as the maintenance of safety and precautions against danger and fire prevention at the construction site. A building construction enterprise shall take safety protection measures in the case of the construction site causing possible damage to its adjoining buildings, structures or special operational environment.
- A construction unit shall, pursuant to the relevant state provisions, go through the formalities of application for approval in case of any of the following circumstances:
 - (1) need to temporarily occupy sites beyond the approved planned scope;
 - (2) possibility of damaging such public facilities as roads, pipes and cables, electricity, postal service and telecommunications;
 - (3) need to temporarily suspend the water supply, electricity supply or road traffic;
 - (4) need to conduct explosion operations; and
 - (5) other circumstances requiring going through the formalities of application for approval as prescribed by laws and regulations.

- The competent department of construction administration shall be responsible for the administration of construction safety in production and subject to the guidance and supervision of the competent department of labor in construction safety in production in accordance with law.
- The building construction enterprise shall be responsible for the construction site safety. The general contracting unit shall be responsible for the construction site safety of the project under general contract for construction. Subcontracting units shall be responsible to the general contracting unit and subordinate themselves to the management of the general contracting unit for construction site safety in production.
- In the event of an accident in the process of construction, the building construction enterprise shall take emergency measures to reduce casualties of personnel and losses caused by the accident, and submit a report in time to the departments concerned pursuant to relevant state provisions.

On February 1, 2004, the State Council promulgated the Administrative Regulations on Safety in Construction Projects (建設工程安全生產管理條例), which set up sound regulations and rules to curb illegal operations, and make clear the obligations of each participant for construction safety. In addition, the regulations reinforce legal punishment for illegal operation.

According to the Notice Regarding Strengthening and Regulating the Administration of Newly-commenced Projects (國務院辦公廳關於加強和規範新開工項目管理的通知) issued by the General Office of the State Council on November 17, 2007, before commencement of construction, all kinds of projects shall fulfill certain conditions, including, among other things, compliance with national industrial policy, development plan, land supply policy and market access standard, completion of all approval and filing procedures, compliance with zoning plan in terms of site and planning, completion of proper land use procedures and obtaining proper environmental valuation approvals and construction permit or report.

The development of a real estate project must comply with various laws and legal requirements on construction quality, safety standards and technical guidance on architecture, design and construction work, as well as provisions of the relevant contracts. On January 30, 2000, the State Council promulgated and implemented the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例), which sets the respective quality responsibilities and liabilities for developers, construction companies, reconnaissance companies, design companies and construction supervision companies. On August 1, 2008, the State Council issued the Regulations on Energy Efficiency for Civil Buildings (民用建築節能條例), which reduces the energy consumption of civil buildings and improves the efficiency of the energy utilization. According to this regulation, the design and construction of new buildings must meet the mandatory criteria on energy efficiency for buildings, and failure to meet such criteria will result in no neither commencement of construction or acceptance upon completion. Among other things, this regulation sets forth additional requirements for property developers in the sale of commodity buildings in this respect. After completion of construction works for a project, the real estate developer must organize an acceptance examination by relevant government authorities and experts according to the Interim Provisions on Inspection Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收暫行規定) promulgated by MOC on June 30, 2000, and file with the construction authority at or above the county level where the project is located within 15 days after the construction is qualified for the acceptance examination according to the Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收備案管理辦法) promulgated by MOC on April 4, 2000, as amended by MOHURD on October 19, 2009. “Record of acceptance examination upon project completion” will be issued to the real estate developer. For a housing project or other building complex project, an acceptance examination shall be conducted upon completion of the whole project and where such a project is developed in phases, separate acceptance examinations may be carried out for each completed phase.

In China, there are two registers of property interests. “Land registration” is effected by the issue of land use right certificates by the relevant authorities to the land users. Land use rights may be assigned, mortgaged or leased. The building registration is effected by the issue of property ownership certificates to the property owners. “Property or building ownership rights” are only related to the building or improvements erected on the land. Under the PRC laws and regulations, all land use rights and property ownership rights that are duly registered are protected by law. Most cities in China maintain separate registries for the registration. However, Shenzhen, Shanghai, Guangzhou and some other major cities have a consolidated registry for both land use rights and the property ownership interests for the building erected on the relevant land.

Land for Property Development

On April 12, 1988, the National People’s Congress amended the PRC Constitution (中華人民共和國憲法) to permit the transfer of land use rights in accordance with the laws and regulations. On December 29, 1988, the National People’s Congress amended the PRC Land Administration Law (中華人民共和國土地管理法) to permit the transfer of land use rights in accordance with the laws and regulations. The PRC Land Administration Law has been further amended on August 28, 1998 and August 29, 2004.

Under the Interim Regulations of the People’s Republic of China on Grant and Assignment of the Use Right of State-owned Urban Land (城鎮國有土地使用權出讓和轉讓暫行條例) promulgated by the State Council on May 19, 1990, the PRC adopted a system to grant and assign the right to use state-owned land. A land user must pay a land premium to the state as consideration for the grant of the right to use a land site within a specified period of time, and the land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. Under the relevant PRC laws and regulations, the land administration authority at the local government of the relevant city or county level may enter into a land grant contract with the land user to provide for the grant of land use rights. The land user must pay the land premium as provided by the land use rights grant contract. After payment in full of the land premium, the land user may register with the land administration authority and obtain a land use rights certificate which evidences the acquisition of land use rights. The relevant PRC laws and regulations provide that land use rights for a site intended for real estate development must be obtained through grant except for land use rights which may be obtained through premium-free allocation by the PRC government pursuant to the PRC laws or the stipulations of the State Council. Government-allocated land is not allowed to be transferred unless the transfer is approved by the relevant PRC government authorities and the land premium as determined by the relevant PRC government authorities has been paid.

Pursuant to the Measures on Disposal of Idle Land (閑置土地處置辦法) promulgated by the Ministry of Land and Resources on April 28, 1999, idle land fees may be imposed on land that has not been developed for one year from the contractual construction commencement date. Land use rights may be forfeited to the government without compensation to the developer if the land has not been developed for two years as required by the laws and regulations, and allotted for other purposes. Under current PRC laws and regulations on land administration, the land use rights for property development may be obtained only by grant except for the land use rights obtained through allocation. Under the Regulations on the Grant of State-owned Land Use Rights Through Public Tender, Auction and Listing-for-Sale promulgated by the Ministry of Land and Resources (招標拍賣掛牌出讓國有土地使用權規定) on May 9, 2002 and enforced on July 1, 2002, land for commercial use, tourism, entertainment and commodity housing development must be granted by way of public tender, auction or listing-for-sale. Under these regulations, the relevant land administration authority at city or county level, or the grantor, is responsible for preparing the public tender, auction or listing-for-sale documents and must make an announcement at least 20 days prior to the day of public tender, auction or listing-for-sale with respect to the particulars of the land parcel and the time and venue of the public tender, auction or listing-for-sale. The grantor must also verify the qualification of the bidding and auction applicants, accept an open public auction to determine the winning tender or hold an auction to ascertain a winning bidder.

The grantor and the winning tender or bidder will then enter into a confirmation followed by the execution of a contract for assignment of state-owned land use rights. The winning tender or winning bidder should apply for the land registration after paying off the granting price in accordance with the grant of state-owned land use right. Over the years, the Ministry of Land and Resources has promulgated further rules and regulations to define the various circumstances under which the state-owned land use rights may be granted by means of public tender, auction and listing-for-sale or by agreement.

Under the Regulation on Grant of State-owned Land Use Rights by Agreements (協議出讓國有土地使用權規定) promulgated by the Ministry of Land and Resources on June 11, 2003 and enforced on August 1, 2003, except for the project that must be granted through tender, auction and listing-for-sale as required by the relevant laws and regulations, land use right may be granted through transfer by agreement and the land premium for the transfer by agreement of the state-owned land use right shall not be lower than the land price set by the State. In some area which has the benchmark land price, the land premium for the transfer by agreement shall not be lower than 70% of the benchmark land price where the land is located.

According to the Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction (the Land Use Approval Notice) (關於加強城市建設用地審查報批工作有關問題的通知) enacted by the Ministry of Land and Resources on September 4, 2003, commencing from the day of distribution of the Land Use Approval Notice, land use for luxurious commodity houses shall be stringently controlled, and applications for land use for building villas shall be stopped.

The Urgent Notice on Further Governing and Rectifying Land Market and Strengthening Administration of Land (關於深入開展土地市場治理整頓嚴格土地管理的緊急通知) issued by the General Office of the State Council on April 29, 2004 restated the principle of strict administration of the approval process for the construction land and protection of the basic farmlands.

On May 30, 2006, the Ministry of Land and Resources issued the Urgent Notice of Further Strengthening the Administration of the Land (關於當前進一步從嚴土地管理的緊急通知) (the Urgent Notice). It is expressly prescribed in this Urgent Notice that land for real estate development must be granted by way of public tender, auction and listing-for-bidding; the rules of stopping the development project for villas should be strictly enforced; and all supply of land for such purpose and handling of related land use procedures will be ceased from the day of the Urgent Notice's issuance. Under the Urgent Notice, the land authority should rigidly execute the "Model Text of the State-owned Land Use Right Granting Contract" and "Model Text of the State-owned Land Use Right Granting Supplementary Agreement (for Trial Implementation)" jointly enacted by the Ministry of Land Resources and SAIC. The documents of the land granting should ascertain the requirement of planning, construction and land use such as the restriction of the dwelling size, plot ratio and the time limit of starting and completion. All these should be agreed in the Land Use Right Granting Contract.

The Notice on Issues Relating to Strengthening the Land Control (關於加強土地調控有關問題的通知) promulgated by the State Council on August 31, 2006 sets forth the administration of the receipt and disbursement of the land premium, modifies the tax policies relating to the construction land, and builds up the system of publicity for the standards of the lowest price with respect to the granted state-owned land use right.

On March 16, 2007, the National People's Congress adopted the PRC Property Rights Law (中華人民共和國物權法), which became effective on October 1, 2007. According to the Property Rights Law, when the term of the right to use construction land for residential (but not other) purposes expires, it will be renewed automatically. Unless it is otherwise prescribed by any law,

the owner of construction land use rights has the right to transfer, exchange, and use such land use rights as equity contributions or collateral for financing. If the state takes the premises owned by entities or individuals, it must compensate the property owners in accordance with law and protect the lawful rights and interests of the property owners.

On September 8, 2007, the Ministry of Land and Resources promulgated a Notice on Strengthening the Disposing of Idle Land (關於加大閒置土地處置力度的通知) providing that the grant of state-owned land use right shall be granted by ways of “Cultivated Land.” It means that the grant of state-owned land use right can only be transferred after the payment of compensation fees for landing and settlement and completion of the land development at the earlier stage. The notice also prescribes that the state-owned land use rights certificate shall not be issued before the land grant premium for acquisition of land has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

In September 2007, the Ministry of Land and Resources further promulgated the Regulations on the Grant of State-owned Construction Land Use Rights Through Public Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有建設用地使用權規定) which enforced on November 1, 2007. This regulation requires that land for industrial use, except land for mining, must also be granted by public tender, auction and listing-for-sale. Only after the grantee has paid the land premium in full under the land grant contract, can the grantee apply for the land registration and obtain the land use right certificates. Furthermore, land use rights certificates may not be issued in proportion to the land premium paid under the land grant contract.

On February 27, 2007, the Ministry of Land and Resources and the Ministry of Finance jointly promulgated the Provisional Measures on Financial Administration of Reserve Land Funds 《土地儲備資金財務管理暫行辦法》 for the purpose of perfecting the land reserve system, strengthening land regulation and control, regulating the operation of the land market, strengthening land administration and regulating land reserve administrative behaviors.

On November 19, 2007, the Ministry of Land and Resources, the Ministry of Finance and PBOC jointly promulgated the Administration Measures on Land Reserve (土地儲備管理辦法), pursuant to which, local authorities should reasonably decide the scale of land reserve in accordance with the macro-control of the land market. Those idle, unoccupied, and low-efficient state-owned construction land inventory shall be used as land reserve in priority. The purpose of reserving such land is to control the property market and promote the appropriate use of land resources.

On December 30, 2007, the Ministry of Land and Resources promulgated the Rules on Land Registration (土地登記辦法), which further stresses payment in full of the land premium prior to the application for the registration of state-owned construction land use rights.

The State Council issued the Circular on Saving Intensive-use Land (國務院關於促進節約集約用地的通知) on land conservation and improving the efficiency of land use on January 3, 2008, in order to better protect arable land. The circular called on relevant government agencies to map out large-scale “scientific infrastructure” programs, tighten land use approval in both rural and urban areas and step up land market monitoring. The circular prescribed that, if land approved for development remains unused for more than two years, it should be recovered by the government according to laws and regulations. If the land remains idle for more than one year and less than two years, land developers should pay a 20% non-usage fee. More than 70 percent of the land used for construction of urban housing should be designated for residential purposes for low-rent units, affordable housing, price-limited housing and smaller units of less than 90 square meters. The circular also stipulates that lending and financing services will not be provided for illegally used land. Moreover, financial institutions should be very prudent when they provide loans and/or when they examine financing for real estate projects that exceed one year from the start date listed in the land use right granting contract, for which less than 1/3 of the development area has been completed, or for which less than 1/4 of the investment has been made.

On November 10, 2009, the Ministry of Land and Resources issued a Circular on the Distribution of the Catalog for Restricted Land Use Projects (2006 Version Supplement) and the Catalog for Prohibited Land Use Projects (2006 Version Supplement) (關於印發(限制用地項目目錄(2006年本增補本)) 和(禁止用地項目目錄(2006年本增補本)) 的通知), as a supplement to its 2006 version. In this Circular, the Ministry of Land and Resources has set forth a ceiling for the parcel of land granted by local governments for development of commodity housing as follows: seven hectares for small cities and towns, 14 hectares for medium-sized cities and 20 hectares for large cities.

On November 18, 2009, the Ministry of Finance, the Ministry of Land and Resources, PBOC, the PRC Ministry of Supervision and the PRC National Audit Office jointly promulgated the Notice on Further Enhancing the Revenue and Expenditure Control over Land Grant (關於進一步加強土地出讓收支管理的通知). The notice raises the minimum down-payment for land premiums to 50% and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions.

On March 8, 2010, the Ministry of Land and Resources promulgated the Notice on Issues Regarding Strengthening Control and Monitor of Real Estate Land Supply (關於加強房地產用地供應和監管有關問題的通知). According to the notice, at least 70% of total land supply must be provisioned for affordable housing, redevelopment of shanty towns and small/medium residential units for self-use and the land supply for large residential units will be strictly controlled and while land supply for villa projects will be banned. The notice also requires that the lowest land grant price must be at least 70% of the basic land price in which the granted land is located and the real estate developers' bid deposit should be at least 20% of the lowest land grant price. The land grant contract must be executed within ten working days after the land transaction is confirmed. The minimum down payment of the land premium will be 50% and must be paid within one month after the execution of the land grant contract. The remainder of the land grant payment must be paid in accordance with the agreement within one year. The land grant contract cannot be executed if it is not in accordance with the requirement above; if the grantee does not sign the land grant contract in accordance with the timeline, the land cannot be handed over and the deposit will not be returned. If no land grant premium is paid after the execution of the land grant contract, the land must be withdrawn.

To implement the Notice of Firmly Curbing Housing Price in Certain Cities circulated by the State Council (國務院關於堅決遏制部分城市房價過快上漲的通知) on April 17, 2010, on September 21, 2010, the Ministry of Land and Resources and MOHURD jointly promulgated the Notice on Further Strengthening Control and Regulation of Land and Construction of Property Development (關於進一步加強房地產用地和建設管理調控的通知), which stipulated, among other things, that: (i) at least 70% of land designated for construction of urban housing must be used for affordable housing, housing for resettlement of shanty towns and small to medium-sized ordinary commercial housing; in areas with high housing prices, the supply of land designated for small to medium-sized, price-capped housing must be increased; (ii) developers and their controlling shareholders are prohibited from participating in land biddings before the rectification of certain misconduct, including (1) illegal transfer of land use rights; (2) failure to commence required construction within one year from the delivery of land under land grant contracts due to such developers' own reasons; (3) noncompliance with the land development requirements specified in land grant contracts; and (4) crimes such as swindling land by forging official documents and illegal land speculation; (iii) developers are required to commence construction within one year from the date of delivery of land under the relevant land allocation decision and land grant contract and complete construction within three years of commencement; (iv) development and construction of projects of low-density and large-sized housing must be strictly limited and the plot ratio of the planned GFA to the total site area of residential projects must be more than 1:1; and (v) the grant of two or more bundled parcels of lands and undeveloped land is prohibited.

On December 19, 2010, the Ministry of Land and Resources promulgated the Notice on Strict Implementation of Policies Regarding Regulation and Control of Real Property Land and Promotion of the Healthy Development of Land Markets (關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知), which provides, among other things, that: (i) cities and counties that have less than 70% of their land supply designated for affordable housing, housing for

redevelopment of shanty towns or small/medium residential units must not provide land for large-sized and high-end housing before the end of year 2010; (ii) land and resource authorities in local cities and counties will report to Ministry of Land and Resources and provincial land and resource authorities, respectively regarding land with a premium rate of more than 50%; (iii) for any land which has been designated for affordable housing, is used for property development against relevant policies the illegal income will be confiscated and the relevant land use rights will be withdrawn. Moreover, changing the plot ratio without approval is strictly prohibited.

On January 26, 2011, the State Council circulated Notice on Further Regulating the Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知), which provides stricter management of housing land supply, among other things, that participants or individual bidding on any land unit shall show proof of funding sources.

Sale of Commodity Houses

Under the Measures for Administration of Sale of Commodity Houses (商品房銷售管理辦法) promulgated by MOC on April 4, 2001 and enforced on June 1, 2001, sale of commodity houses can include both sales before the completion of the properties, or pre-sale, and sales after the completion of the properties.

Any pre-sale of commodity buildings must be conducted in accordance with the Measures for Administration of Pre-sale of Commodity Buildings in Urban Area promulgated by MOC on November 15, 1994 (城市商品房預售管理辦法), as amended on August 15, 2001 and July 20, 2004, and other related regulations. The pre-sale regulations provide that any pre-sale of commodity properties is subject to specified procedures. According to the current PRC laws and regulations, a pre-sale permit must be in place before a commodity building may be put to pre-sale. Specifically, a developer intending to sell a commodity building before its completion must apply to the real estate development authorities for a pre-sale permit. A commodity building may be sold before completion only if:

- the land premium has been paid in full for the grant of the land use rights involved and a land use rights certificate has been properly obtained;
- a construction planning permit and a construction permit have been properly obtained;
- funds invested in the development of the commodity buildings for pre-sale represent 25% or more of the total investment in the project and the construction progress as well as the completion and delivery dates have been properly ascertained; and
- the pre-sale has been registered and a pre-sale permit has been obtained.

The pre-sale proceeds of commodity buildings must be used to develop the relevant project so pre-sold.

Commodity buildings may be put to post-completion sale and delivery after they have passed the acceptance examination and otherwise satisfy the various preconditions for such sale. Under the “Measures for Administration of Sales of Commodity Houses” (商品房銷售管理辦法), commodity buildings may be put to post-completion sale when the following pre-conditions have been satisfied: (a) the property development enterprise offering to sell the post-completion properties shall have an enterprise legal person business license and a qualification certificate of a property developer; (b) the enterprise has obtained the State-owned Land Use Rights Certificate or other approval documents of land use; (c) the enterprise has the Planning Permit for Construction Works and the Construction Permits; (d) the commodity properties have been completed and been inspected and accepted as qualified; (e) the relocation of the original residents has been well settled; (f) the ancillary infrastructure facilities for supplying water, electricity, heating, gas, communication, etc. have been made ready for use, and other ancillary essential facilities and public facilities have been made ready for use, or the schedule of construction and delivery date of have been specified; (g) the property management plan has been completed. Before the

post-completion sale of a commodity building, the developer must, among other things, submit a real estate development project manual and other documents relating to the project evidencing the satisfaction of the preconditions for post-completion sale to the real estate development authority for its record.

On April 13, 2010, MOHURD issued the Notice on Further Enhancing the Supervision of the Real Estate Market and Perfecting the Pre-sale System of Commodity Houses (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知). Pursuant to the notice, without pre-sale approval, the commodity houses are not permitted to be pre-sold and the real estate developer is not allowed to charge the buyer any deposit, pre-payment or payment of a similar nature. Meanwhile, local government should accelerate the enactment of the regulatory system of the pre-sale proceeds and enhance the supervision of the proceeds as well. All commodity housing pre-sale proceeds, shall be deposited in escrow accounts under the supervision of regulatory institutions. In addition, the notice urges local governments to enact regulations on the sale of completed commodity properties in light of local conditions and encourages property developers to engage in the practice of selling completed commodity properties. The administrative department of construction on the real estate development at the province level may further set up their implementation rules in accordance with the above state level measures and notices.

Transfer of Real Estate

According to the PRC laws and the Provisions on Administration of Transfer of Urban Real Estate (城市房地產轉讓管理規定) promulgated by MOC on August 7, 1995, as amended on August 15, 2001, a real estate owner may sell, gift or otherwise legally transfer the property to another natural person or legal entity. When transferring a property, the ownership of the property and the land use rights to the site on which the property is situated are transferred together. The parties to a transfer must enter into a written real estate transfer contract and register the transfer with the real estate administration authority having jurisdiction over the location of the property within 90 days of the execution of the transfer contract.

Where the land use rights are originally obtained by grant, the real property may only be transferred on the condition that:

- the land premium has been paid in full for the granted land use rights as required by the land grant contract and a land use rights certificate has been properly obtained; and
- in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed; or
- in case of a whole land lot development project, construction works have been carried out as planned, water supply, sewerage, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been leveled and made ready for industrial or other construction purposes; or
- in the case of the construction of buildings have been completed, the building ownership certificate should have been obtained.

If the land use rights are originally obtained by grant, the term of the land use rights after transfer of the real estate will be the remaining portion of the original term in the land grant contract. In the event that the assignee intends to change the use of the land provided in the land grant contract, consent must first be obtained from the original land use rights grantor and the planning administration authority at the relevant city or county and an agreement to amend the land grant contract or a new land grant contract must be signed in order to, *inter alia*, change the use of the land and adjust the land premium accordingly.

If the land use rights are originally obtained by allocation, such allocated land use right may be changed to granted land use rights upon approval by the government vested with the necessary

approval power as required by the State Council. After the government authorities vested with the necessary approval power approve such change, the grantee (the above-mentioned assignee should act as the grantee) must complete the formalities for the grant of the land use rights and pay the land premium according to the relevant statutes.

Leases of Buildings

Measures for Administration of Leases of Commodity Property (商品房屋租賃管理辦法) promulgated by MOHURD on December 1, 2010 and enforced on February 1, 2011, repealing the Measures for Administration of Leases of Buildings in Urban Areas (城市房屋租賃管理辦法) promulgated by MOC on May 9, 1995 and enforced on June 1, 1995, provides that parties to a lease of a building must enter into a lease contract in writing. China has adopted a system to register the leases of real properties. When a lease contract is signed, amended or terminated, the parties must register the details with the real estate administration authority at the city or county in which the building is situated.

According to the Measures for Administration of Lease of Commodity Housing (商品房屋租賃管理辦法) promulgated by MOHURD on December 1, 2010 and effective on February 1, 2011, if the parties to a leasehold arrangement of a property do not register the lease of properties with the competent authorities, and also fail to correct their behavior within a definite time, they will be subject to fine.

Mortgages of Real Estate

Under the PRC Urban Real Estate Administration Law (中華人民共和國城市房地產管理法) promulgated by the Standing Committee of the National People's Congress on July 5, 1994, enforced on January 1, 1995 and amended on August 30, 2007, the PRC Security Law (中華人民共和國擔保法) promulgated by the National People's Congress on June 30, 1995 and enforced on October 1, 1995, and the Measures for Administration of Mortgages of Urban Real Estate (城市房地產抵押管理辦法) promulgated by MOC on May 29, 1997, enforced on June 1, 1999 and amended on August 15, 2001, when a mortgage is created on the ownership of a building legally obtained, such mortgage must be simultaneously created on the land use rights of the land on which the building is situated. The mortgagor and the mortgagee must sign a mortgage contract in writing. China has adopted a system to register mortgages of real estate. After a real estate mortgage contract has been signed, the parties to the mortgage must register the mortgage with the real estate administration authority at the location where the real estate is situated. A real estate mortgage contract will become effective on the date of registration of the mortgage. If a mortgage is created on the real estate in respect of which a property ownership certificate has been obtained legally, the registration authority will, when registering the mortgage, make an entry under "third party rights" on the original property ownership certificate and then issue a certificate of third-party rights to the mortgagee. If a mortgage is created on the commodity building put to pre-sale or on works in progress, the registration authority will, when registering the mortgage, record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved will re-register the mortgage of the real property after issue of the property ownership certificates evidencing the rights and ownership to the real estate.

The PRC Property Rights Law (中華人民共和國物權法) promulgated on March 16, 2007 that became effective on October 1, 2007 further widens the scope of assets that can be mortgaged, allowing for any asset associated with property rights to be mortgaged as collateral unless a specific prohibition under another law or regulation applies. The PRC Property Rights Law provides that the mortgage registration of buildings and other objects fixed to land, the right to use construction land and a building under construction shall be gone through, such mortgage right shall be established as of the date of registration. The buildings newly constructed on the land after the mortgage of the right to use construction land may not belong to the mortgaged properties. Such newly constructed buildings can be disposed of together with the disposal of the aforesaid right to use construction land so as to realize the mortgage right; however, the mortgagee has no right to seek preferred payments from the money generated from the disposal of these newly constructed buildings.

On December 30, 2007, the Ministry of Land and Resources, issued the Administrative Measures on Land Registration (土地登記辦法). The measures are scheduled to take effect on February 1, 2008. According to the measures, land registration refers to the recording of land use rights on land registered for public review. The measures stipulate that the administrative department of land and resources must conclude land registrations within 20 days after receiving an application. If the case is complex, a ten-day extension can be approved by the principal of land and resources' administrative department.

On April 9, 2008, the Ministry of Land and Resources released the Circular on Implementing the Land Registration Measures and Further Strengthening Land Registration Work (關於貫徹實施<土地登記辦法>進一步加強土地登記工作的通知) (the "Circular"), which calls for stringent land registration according to laws, cessation of illegal registration, and prohibition of legalizing illegal land through land registration.

The Circular points out that the registrations will not be granted to cases involving unresolved land disputes, as well as cases where the full contract price has not been paid or where the use of land has been changed illegally. In addition, the Circular stipulates that personnel without a Land Registration Qualification Certificate must not be engaged in land ownership investigation and examination. Any person responsible for incorrect registration or incomplete registrations must bear the consequences.

On February 15, 2008, MOC released Procedures for Property Registration (房屋登記辦法) (the "Procedures"). The Procedures are scheduled to take effect on July 1, 2008. Measures on Administration of Urban Houses Registration (城市房屋權屬登記管理辦法) and Decisions by the MOC to Revise Measures on Administration of Urban Houses Registration (建設部關於修改<城市房屋權屬登記管理辦法>的決定) will be revoked on that day. The Procedures stipulate that in property registrations, the owners of the housing property rights should correspond with the owners of the land use rights. Based on PRC Property Rights Law, the Procedures specifically regulate the pre-registration, registration of mortgage rights for construction work in process, registration for maximum mortgage amount, registration of rectification, registration for objection and registration for easement, which make property registrations more operable.

Property Finance

According to the PBOC Notice on Regulating Home Financing Business (中國人民銀行關於規範住房金融業務的通知) promulgated on June 19, 2001, all banks must comply with the following requirements before granting residential development loans, individual home mortgage loans and individual commercial property mortgage loans:

- Property development loans from banks may only be granted to real estate developers with development qualification and credit ratings in the higher categories. Such loans may be offered to residential projects with good market potential. While the borrowing enterprise's internal capital may not be less than 30% of the total investment required for the project, the project must have obtained the land use rights certificate, construction land planning permit, construction works planning permit and construction permit.
- In respect of the grant of individual home mortgage loans, the ratio between the loan amount and actual value of the collateral may never exceed 80%. Where an individual applies for a home purchase loan to buy a pre-sale property, the property must have achieved the stage of "topping-out of the main structure completed" for multi-story buildings and "two-thirds of the total investment completed" for high-rise apartment buildings.

- In respect of the grant of individual commercial use building mortgage loans, the mortgage ratio for commercial use building mortgage loans may not exceed 60% with a maximum loan period of ten years and the subject commercial use building already completed.

The PBOC issued the Circular on Further Strengthening the Management of Loans for Property Business (關於進一步加強房地產信貸業務管理的通知) on June 5, 2003 to specify the requirements for banks to provide loans for the purposes of real estate development and individual home mortgage as follows:

- The real estate loan by commercial banks to real estate development enterprises shall be granted only under the title of real estate development loan and it is strictly forbidden to extent such loans as current capital loan for real estate development projects or other loan items. No lending of any type shall be granted to enterprises which have not obtained the State-owned Land Use Rights Certificate, Planning Permit for Construction Land, Planning Permit for Construction Works and Permit for Commencement of Construction Works;
- Commercial banks shall not grant loans to real estate developers to pay off land premium; and
- Commercial banks may only provide mortgage loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his first residential unit, the down payment remains to be 20%. In respect of his loan application for his second or more (including the second) residential unit(s), the percentage of the first installment shall be increased.

In a Circular on Facilitating the Continuously Healthy Development of Real Estate Market (關於促進房地產市場持續健康發展的通知) issued by the State Council on August 12, 2003, a series of measures were adopted by the government to control the real estate market. They included, among others, strengthening the construction and management of low-cost affordable houses, increasing the supply of ordinary commodity houses and controlling the construction of high-end commodity houses. Besides, the government also staged a series of measures on the lending for residential development, including, among others, improving the loan evaluation and lending process, improving the guarantee mechanism of individual home loans and strengthening the monitoring over property loans. It is expected that the circular will have a positive effect on the development of the PRC real estate market in the long run by facilitating a continuously healthy growth of the property market in China.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks (商業銀行房地產貸款風險管理指引) issued by CBRC on September 2, 2004, any real estate developer applying for real estate development loans shall have at least 35% of capital funds required for the development.

According to the “Notice of the People’s Bank of China on the Adjustment of Commercial Bank Housing Loan Policies and the Interest Rate of Excess Reserve Deposit” (中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知) enacted by the PBOC on March 16, 2005, starting from March 17, 2005, the down payment of individual residential property loan increased from 20% to 30% in cities and areas where property prices grow too quickly. The commercial banks can independently determine the scope of such property price rise according to specific situations in different cities or areas.

On May 24, 2006, the State Council forwarded the “Opinion of the Ministry of Construction and Other Departments on Adjusting the Housing Supply Structure and Stabilizing the Property Prices” (關於調整住房供應結構穩定住房價格的意見). The regulations provide the following:

- Tightening the control of real estate advancing loan facilities. The commercial banks are not allowed to advance their loan facilities to real estate developers who do not have the required 35% or more of the total capital for the construction projects. The commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the real estate developers who have a large number of idle lands and unsold commodity properties. Banks shall not accept mortgages of commodity properties remaining unsold for three years or longer.
- From June 1, 2006 and onward, individual purchasers need to pay a minimum of 30% of the purchase price as down payment. However, if individual purchasers purchase apartments with a floor area of 90 sq.m. or less for residential purposes, the existing requirement of 20% of the purchase price as down payment remains unchanged.

According to the “Circular on Standardizing the Admittance and Administration of Foreign Capital in Property Market” (關於規範房地產市場外資進入和管理的意見) enforced on July 11, 2006, foreign-invested real estate development enterprises which have not paid up their registered capital fund fully, or failed to obtain the State-owned Land Use Rights Certificate, or with under 35% of the total investment for the project, will not be allowed to obtain a loan in or outside China, and foreign exchange administration departments shall not approve any settlement of foreign loans by such enterprises.

On July 22, 2006, the CBRC issued the “Circular on Further Strengthening the Management of Real Estate Credit” (關於進一步加強房地產信貸管理的通知), provided that granting development loans to a real estate developer that do not satisfy the conditions for loans, such as that capital funds paid for a real estate project (except economy affordable house) have not reached 35% of the total investment to the project, or the State-owned Land Use Rights Certificate, Planning Permit for Construction Land, Planning Permit for Construction Works, and Permit for Commencement of Construction Works have not been obtained, shall be strictly forbidden. Granting new real estate loans to real estate developers that stock up lands or property resources, or disturb the normal market order shall be strictly restricted. Arbitraging real estate loans of real estate developers by means such as dividing up a project or developing it on a revolving basis shall be specially prevented.

On September 27, 2007, the PBOC and CBRC jointly promulgated a Circular on Strengthening the Management of Commercial Real Estate Credit Loans (關於加強商業性房地產信貸管理的通知), with a supplement issued in December 2007. The circular aims to tighten the control over real estate loans from commercial banks to prevent granting excessive credit. The measures include:

- for a first-time home owner, increasing the minimum amount of down payment to 30% of the purchase price of the underlying property if the underlying property has a unit floor area of 90 square meters or more and the purchaser is buying the property as its own residence;
- for a second-time home buyer, increasing (i) the minimum amount of down payment to 40% of the purchase price of the underlying property and (ii) the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark one-year bank lending interest rate. If a member of a family (including the buyer, his/her spouse and their children under 18) has financed the purchase of a residential unit, any member of the family that buys another residential unit with bank loans will be regarded as a second-time home buyer;

- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment to 50% of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark one-year bank lending interest rate and (iv) limiting the terms of such bank loans to no more than ten years, although the commercial banks are given certain flexibility based on its risk assessment;
- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45% of the purchase price of the underlying property, with the other terms to be decided by reference to commercial properties; and
- prohibiting commercial banks from providing loans to real-estate developers who have been found by relevant government authorities to be hoarding land and properties.

In addition, commercial banks are also banned from providing loans to the projects that have less than 35% of capital funds (proprietary interests), or fail to obtain land use right certificates, construction land planning permits, construction works planning permits or construction permits. Commercial banks are also prohibited from accepting commercial premises that have been vacant for more than three years as collateral for loans. In principle, real-estate development loans provided by commercial banks should only be used for the projects where the commercial banks are located. Commercial banks may not provide loans to property developers to finance the payment of land premium.

According to the Notice on Extending the Downward Range of the Interest Rate for Commercial Personal Home Loans and Supporting the Residents in First-time Purchase of Ordinary Residential Homes (擴大商業性個人住房貸款利率下浮幅度支持居民首次購買普通住房的通知) issued by PBOC on October 22, 2008, the minimum amount of down payment for the first-time home buyer has been adjusted to 20% since October 27, 2008.

On September 29, 2010, PBOC and CBRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan Policies (關於完善差別化住房信貸政策有關問題的通知), which raised the minimum down payment to 30% for all first-time house purchases.

It also provides commercial banks in China shall suspend mortgage loans to purchasers for their third residential property and beyond or to non-local residents who can not provide documentation certifying payment of local tax or social security for longer than a one-year period. In addition, all property companies with records of being involved in abuse of land, changing the use of land, postponing the construction commencement or completion date, hoarding properties or other non-compliance will be restricted from obtaining bank loans for new projects or extension of credit facilities.

On November 2, 2010, MOHURD, the Ministry of Finance, PBOC and CBRC jointly promulgated the Notice on Relevant Issues Concerning Policies of Regulation of Individual Housing Reserve Loan (關於規範住房公積金個人住房貸款政策有關問題的通知), which provided that, among other things: (i) where a first-time home buyer (including the borrower, spouse and minor children) uses housing reserve loans to buy an ordinary house for self-use with a unit floor area: (a) equal to or less than 90 square meters, the minimum down payment shall be at least 20%; (b) more than 90 square meters, the minimum down payment shall be at least 30%; (ii) for a second-time home buyer that uses housing reserve loans, the minimum down payment shall be at least 50% with the minimum lending interest rate of 110% of the benchmark rate; (iii) the second housing reserve loan will only be available to families whose per capita housing area is below the average in locality and such loan must only be used to purchase an ordinary house for self-use to improve residence conditions; and (iv) housing reserve loans to families for their third residential property and beyond will be suspended.

On January 26, 2011, General Office of the State Council issued Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知). According to this Notice, for those households who purchase the second set of housing through loan, the down payment ratio shall not be lower than 60%. The loan interest shall not be lower than 1.1 times of the benchmark interest rate. The respective branches of PBOC may raise the down payment ratio and interest rate on loans for second home based on the price control targets set by the local People's Government for newly constructed houses and the policy requirements, and on the basis of national unified credit policies.

Real Estate Management

Under the Measures for the Administration of Qualifications of Property Service Enterprises (物業管理企業資質管理辦法) promulgated by MOC on March 17, 2004, enforced on May 1, 2004, and amended on November 26, 2007, a property service enterprise must apply for assessment of its qualification by the relevant qualification approval authority. An enterprise which passes such a qualification assessment will be issued a qualification certificate. No enterprise may engage in property management without undertaking a qualification assessment conducted by the relevant authority and obtaining a qualification certificate.

Insurance

There is no mandatory provision under the PRC laws, regulations and government rules which require a property developer to take out insurance policies for its real estate developments. According to the common practice of the property industry in China, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies must pay for the insurance premium at their own costs and take out insurance to cover their liabilities, such as third party's liability risk, employer's liability risk, risk of nonperformance of contract in the course of construction and other kinds of risks associated with the construction and installation works throughout the construction period. The insurance coverage for all these risks will cease immediately after the completion and acceptance upon inspection of construction.

In light of the "Construction Law of the People's Republic of China" (中華人民共和國建築法) enacted by the Standing Committee of the National People's Congress on November 1, 1997 and enforced on March 1, 1998, construction enterprises must take out accident and casualty insurance for workers engaged in dangerous operations and pay insurance premium. In the "Opinions of the MOC on Strengthening the Insurance of Accidental Injury in Construction Work" (建設部關於加強建築意外傷患保險工作的指導意見) by the MOC on May 23, 2003, the MOC further emphasizes the importance of the insurance for accidental injury in the construction work and put forward the detailed opinions of guidance.

Measures on Stabilizing Housing Price

The General Office of the State Council promulgated a Circular on Stabilizing Housing Price (關於切實穩定住房價格的通知) on March 26, 2005, introducing measures to be taken to restrain the housing price from increasing too fast and to promote a stable development of the real estate market. On April 30, 2005, MOC, NDRC, the Ministry of Finance, the Ministry of Land and Resources, PBOC, the State Administration of Taxation and CBRC jointly issued an Opinions on Stabilizing Housing Prices (關於做好穩定住房價格工作的意見) containing the following guidance:

- Where the housing price is growing too fast, while the supply of ordinary commodity houses at medium or low prices and low-cost affordable houses is insufficient, the housing construction should mainly involve projects of ordinary commodity houses at medium or low prices and low-cost affordable houses. The construction of low-density, high-end houses should be strictly controlled. The relevant local government authorities

are authorized to impose conditions on planning and design such as the building height, plot ratio and green space and to impose such requirements as the selling price, type and gross floor area as preconditions on land assignment. The local governments are also required to strengthen their supervision of real estate developments in their jurisdictions.

- Where the price of land for residential use and the price for residential housing are growing too fast, the proportion of land supply for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses at medium or low prices and low-cost affordable houses should be especially increased. Land supply for villa construction should continue to be suspended, and land supply for high-end housing property construction should be strictly restricted.
- Idle land fee must be imposed on land that has not been developed for one year from the contractual construction commencement date as may be specified in the land grant contract. Land use rights of land that has not been developed for two years must be forfeited without compensation.
- Commencing from June 1, 2005, a business tax upon transfer of a residential house by an individual within two years from his/her purchase will be levied on the entire sales proceeds from such sale. For an individual to transfer an ordinary residential house after two years from his/her purchase, the business tax will be exempted. For an individual to transfer a property other than an ordinary residential house after two years from his/her purchase, the business tax will be levied on the difference between the price of such sale and the original purchase price.
- Ordinary residential houses with medium or small gross floor areas and at medium or low prices may be granted preferential treatment such as planning permits, land supply, credit and taxation. Houses enjoying these preferential policies must satisfy the following conditions in principle: the plot ratio is above 1.0, the gross floor area of one single unit is less than 120 sq.m., and the actual transfer price is lower than 120% of the average transfer price of comparable houses at comparable locations. The local governments at the provincial level may, based on their actual local circumstances, formulate specific standards for ordinary residential houses that may enjoy the preferential policies.
- Transfer of unfinished commodity properties by any pre-sale purchaser is forbidden. In addition, purchasers are required to buy properties in their real names. Any commodity property pre-sale contract must also be filed with the relevant government agencies electronically immediately after its execution.

According to the Notice of the People's Bank of China on the Adjustment of Commercial Bank Housing Loan Policies and the Interest Rate of Excess Reserve Deposit (關於調整商業銀行住房信貸政策和超額準備金存款利率的通知), promulgated by the PBOC on March 16, 2005, starting from March 17, 2005, the preferential mortgage loan interest rate was replaced by the commercial loan interest rate subject to certain restrictions on the lower limit on such interest rates. In the urban areas or cities with rapidly increased real estate prices, the minimum down payment ratio for individual housing loans was adjusted from 20% to 30%.

On May 24, 2006, the State Council forwarded the Opinions of the Ministry of Construction and Other Departments on Adjusting the Housing Supply Structure and Stabilization of Property Prices (關於調整住房供應結構穩定住房價格意見的通知). Such opinions reiterated the existing measures and ushered additional measures that aim to further curb rapid increases in property prices in large cities and to promote healthy development of the PRC property market. These measures include:

- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low-to medium-cost and small- to medium-sized units and low-cost rental properties;
- requiring that at least 70% of residential projects approved or constructed on or after June 1, 2006 must consist of units with a unit floor area of less than 90 sq.m. per unit and that projects which have received approvals prior to this date but have not obtained construction permits must adjust their planning in order to be in conformity with this new requirement, with the exception that municipalities under direct administration of the PRC central government, such as Beijing, Chongqing and Shanghai, provincial capitals and certain other cities may deviate from such ratio under special circumstances upon approval from the Ministry of Construction;
- increasing the minimum amount of down payment from 20% to 30% of the purchase price of the underlying property if the underlying property has a unit floor area of 90 sq.m. or more, effective from June 1, 2006;
- prohibiting commercial banks from lending to real estate developers with an internal capital ratio, calculated by dividing the internal funds by the total project capital required for the relevant projects, of less than 35%, restricting the grant or extension of revolving credit facilities to property developers holding a large amount of idle land and vacant commodity properties, and prohibiting commercial banks from accepting commodity properties which have been vacant for more than three years as security for their loans; and
- imposing a business tax levy on the entire sales proceeds from transfer of properties if the holding period is shorter than five years, effective from June 1, 2006, as opposed to two years when such levy was initially implemented in June 2005, and allowing such business tax to be levied on the difference between the price for such re-sale and the original purchase price in the event that an individual transfers a property other than an ordinary residential property after five years from his/her date of purchase.

On May 30, 2006, the State Administration of Taxation issued the Notice on Relevant Issues of Strengthening Administration of Collection of Real Estate Business Tax (國家稅務總局關於加強住房營業稅徵收管理有關問題的通知). According to the notice, from June 1, 2006, business tax will be imposed on the full amount of the sale income, upon the transfer of a residential house by an individual within five years from the purchase date. In the case of a residence other than an ordinary residence, business tax will be imposed on the difference between the sales income and the purchase price, provided that the transfer occurs after five years from the purchase date.

On May 30, 2006, the Ministry of Land and Resources published an Urgent Notice to Tighten Up Land Administration (關於當前進一步從嚴土地管理的緊急通知). In this notice, the Ministry of Land and Resources stressed that local governments must adhere to their annual overall land use planning and land supply plans and tighten up the control on land supply for non-agricultural use. The notice requires local governments to suspend the supply of land for new villa projects to ensure adequate supply of land for more affordable housing. In this notice, the Ministry of Land and Resources also required the local governments to conduct thorough investigations of illegal land use, idle lands and villa projects and submit a report on such investigations to the Ministry by the end of October 2006.

On July 11, 2006, MOC, NDRC, MOFCOM, PBOC, the State Administration for Industry and Commerce, and SAFE jointly issued an Opinion on Regulating the Access and Management of Foreign Capital in the Real Estate Market (關於規範房地產市場外資准入和管理的意見), or the 171 Opinion. The 171 Opinion aims to tighten access by foreign capital to the PRC real estate market and to restrict property purchases in China by foreign institutions or individuals. It provides, among other things, that a foreign institution or individual must establish a

foreign-invested enterprise in order to purchase real property in China if the property is not intended for self use. The registered capital of such foreign-invested enterprise must amount to at least 50% of its total investments in PRC real properties if the amounts of such investments exceed US\$10 million. Branches and representative offices of foreign institutions in China and foreign individuals who work or study in China for more than one year may purchase real property for their own use but not for any other purposes. In addition, foreign institutions which have no branches or representative offices in China or foreign individuals who work or study in China for less than a year are prohibited from purchasing any real property in China.

On September 1, 2006, SAFE and MOC jointly issued a Notice in Respect of Foreign Exchange Issues in the Real Estate Market (關於規範房地產市場外匯管理有關問題的通知), or the 47 Notice, to implement the 171 Opinion. The 47 Notice provides specific procedures for purchasing real properties by foreign institutions and foreign individuals. The 47 Notice also forbids a foreign-invested real estate enterprise to apply for overseas loans if it has failed to pay its registered capital in full or failed to obtain the land use rights certificates, or its own capital funds do not reach 35% of the total investment for the project.

On July 6, 2006, MOC, NDRC and the State Administration of Industry and Commerce jointly issued a Notice on Reorganizing and Regulating Orderly Real Estate Transactions (關於進一步整頓規範房地產交易秩序的通知) with the following requirements:

- The developer is required to commence the pre-sale of the commodity properties within ten days after receiving pre-sale permits. Without pre-sale permits, the pre-sale of commodity properties as well as subscription (including reservation, registration and number-selecting) and acceptance of any kind of pre-sale payments are forbidden.
- The real estate administration authority is required to establish an immediate network system for pre-sales contracts of commodity properties and a system for the publication of real estate transaction information. The transaction information, including the basic information of the commodity building, the schedule of the sale and the rights status, should be duly, truly and fully published in the network system and on the locale of sale. Transfer of a commodity building which is pre-sold and still under construction is prohibited.
- Without the pre-sale permit, no advertisement of the pre-sale of commodity properties may be published.
- Real estate development enterprises with a record of serious irregularity or enterprises which do not satisfy the requirements of pre-sale of commodity properties are not allowed to take part in the sales activities.
- The real estate administration authority is required to strictly carry out the pre-sale contract registration and require purchasers to use their real names for property purchases.

On July 10, 2007, SAFE issued a Circular on the Distribution of the List of the First Group of Foreign Invested Real Estate Projects Filed with MOFCOM (關於下發第一批通過商務部備案的外商投資房地產項目名單的通知), or Circular 130, together with a list of FIREEs that had effected their filings with MOFCOM. According to Circular 130, SAFE will no longer process foreign debt registrations or foreign debt settlement approval process by FIREEs which have obtained the approval certificates and completed the filing process with MOFCOM after June 1, 2007 (inclusive June 1, 2007). As a result of Notice 130, unless the approval certificate of an FIREE as of May 31, 2007 contained an aggregate investment amount, which includes its registered capital and foreign debt amount, sufficient to permit foreign currency to be injected into its operations in China, such FIREE effectively will no longer be able to borrow foreign debt including shareholder loans and overseas commercial loans to finance their operations in China. It can only use its

capital contributions instead. SAFE further provided in its Circular 130 that for a FIREE which has obtained the approval certificate but failed to complete its filing with MOFCOM after June 1, 2007 (inclusive June 1, 2007), local SAFE branches will not process any foreign exchange registration (or change of such registration) or application for settlement of foreign currency under capital account for such FIREE.

On July 22, 2006, CBRC promulgated a Notice on Further Strengthening the Administration of Real Estate Credit (關於進一步加強房地產信貸管理的通知). The notice (i) prohibits providing loans to disqualified real estate developers including those whose own capital is less than 35% of the total capital required for the projects (not including affordable housing projects), or who have not obtained the relevant land use right certificates, construction land planning permits, construction work planning permits or construction permits; and (ii) prevents real estate developers from obtaining loans by project split-up or rolling-ahead development strategies.

On September 30, 2007, the Ministry of Land and Resources issued the Notice on Implementation of the State Council's Certain Opinions on Resolving Difficulties and Further Strengthening Macro-control of Land Supply (關於認真貫徹國務院(關於解決城市低收入家庭住房困難的若干意見)進一步加強土地供應調控的通知), pursuant to which at least 70% of the land supply arranged by the relevant land administration authority at city or county level for residential property development for any given year must be used for developing low-to medium-cost and small- to medium-sized units, low-cost rental properties and affordable housing.

The revised Catalog of Guidance on Industries for Foreign Investment (外商投資產業指導目錄) jointly promulgated by MOFCOM and NDRC on October 31, 2007 and enforced on December 1, 2008, among other things, removing the development of ordinary residences from the foreign-investment-encouraged category and adding the secondary market residential property trading and brokering into the foreign-investment-restricted category.

On July 29, 2008, the PBOC and CBRC jointly issued the Notice on Financially Promoting the Saving and Intensification of Use of Land (關於金融促進節約集約用地的通知), requiring that relevant financial institutions to strengthen the administration of construction land project loans, including the administration of commercial real estate credit loan.

On October 22, 2008, the PBOC issued the Notice on Extending the Downward Range of the Interest Rate for Commercial Personal Home Loans and Supporting the Residents in First-time Purchase of Ordinary Residential Homes (擴大商業性個人住房貸款利率下浮幅度支持居民首次購買普通住房的通知), pursuant to which, since October 27, 2008, the bottom limit of the interest rate applicable to the commercial personal home loans has been extended, the minimum amount of down payment of first-time home buyers has been adjusted to 20% and the interest rate applicable to individual housing loans financed by provident fund has been also reduced.

On October 22, 2008, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Adjustments to Taxation on Real Property Transactions (財政部、國家稅務總局關於調整房地產交易環節稅收政策的通知), pursuant to which, since November 1, 2008, the rate of deed tax has been reduced to 1% for first-time house purchasers of ordinary residences with a GFA under 90 sq.m., individuals whose sale or purchase residential properties are temporarily exempted from stamp duty and who sell residential properties are temporarily exempted from land value-added tax. However, the aforesaid preferential policy regarding deed tax has been replaced by the Notice on Adjustment of Preferential Policies Regarding Deed Tax and Individual Income Tax Incurred in Transfer of Real Property (財政部、國家稅務總局、住房和城鄉建設部關於調整房地產交易環節契稅個人所得稅優惠政策的通知) jointly promulgated by the Ministry of Finance, State Administration of Taxation and MOHURD on September 29, 2010 and enforced on October 1, 2010, pursuant to which, in the case that an individual purchases an ordinary house which is the only house for the family (taking into account the purchaser, the

spouse and minor children), the deed tax is reduced by half; in the case that an individual purchases an ordinary house with a GFA of 90 sq.m. or less, which is the only house for the family (taking into account the purchaser, the spouse and minor children), the deed tax is levied at a rate of 1%.

On December 20, 2008, the General Office of the State Council issued the Several Opinions on Facilitating the Healthy Development of the Real Estate Market (關於促進房地產市場健康發展的若干意見), which aims to, among other things, encourage the consumption of the ordinary residence and support the real estate developer in handling the market change. Pursuant to this opinion, in order to encourage the consumption of the ordinary residence, from January 1, 2009 to December 31, 2009, business tax is imposed on the full amount of the sale income upon the transfer a non-ordinary residence by an individual within two years from the purchase date. For the transfer of non-ordinary residence which is more than two years from the purchase date and ordinary residence which is within two years from the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after two years from the purchase date. Furthermore, individuals with an existing ordinary residence that is smaller than the average size for their locality may buy a second ordinary residence under favorable loan terms similar to first-time buyers. In addition, support for real estate developers to deal with the changing market is to be provided by increasing credit financing services to “low-to-medium-level price” or “small-to-medium-sized “ordinary commercial housing projects, particularly those under construction, and providing financial support and other related services to real estate developers with good credit standing for merger and acquisition activities.

On December 29, 2008, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Policy of Business Tax on Re-sale of Personal Residential Properties (關於個人住房轉讓營業稅政策的通知), which reiterates the measures set forth in the above Several Opinions on Facilitating the Healthy Development of the Real Estate Market regarding the business tax.

On December 22, 2009, the State Council terminated the policy on preferential treatment relating to business taxes payable upon transfers of residential properties by property owners as previously adopted on December 29, 2008 by the PRC government in response to the global economic slowdown, and the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties (關於調整個人住房轉讓營業稅政策的通知) to curtail speculations in the property market in response to the property price rises across the country. Pursuant to the Notice, effective from January 1, 2010, business tax will be imposed on the full amount of the sale income upon the transfer of non-ordinary residence by an individual within five years, instead of two years, from the purchase date. For the transfer of non-ordinary residence which is more than five years from the purchase date and ordinary residence which is within five years of the purchase date, the business tax is to be levied on the difference between the sale income and the purchase prices. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date.

On January 7, 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of Property Market (關於促進房地產市場平穩健康發展的通知), which adopted a series of measures to strengthen and improve the regulation of the property market, stabilize market expectation and facilitate the stable and healthy development of the property market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of property, restrain speculation of properties, and strengthen risk prevention and market supervision. Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), who have already purchased a residence through mortgage financing and have applied to purchase a second or more residences through mortgage financing, to pay a minimum down payment of 40% of the purchase price.

On February 1, 2010, CBRC issued a Notice on Relevant Issues on Strengthening Administration of Real Estate Trust Business of Trust Companies (關於加強信託公司房地產信託業務監管有關問題的通知), which provides that, among other things, real estate projects must meet the following conditions to be eligible for loan financing from trust companies: (1) real estate projects must have obtained the land use rights certificates, construction land planning permits, construction works planning permits and construction permits; (2) developers or their controlling shareholders must be qualified as class 2 developers or higher; (3) the capital ratio of the project must satisfy the minimum requirements set by relevant authorities; and (4) trust companies may not provide trust funds to finance the land reserves.

On April 17, 2010, the State Council issued the Notice on Resolutely Containing the Excessive Hike of Property Prices in Some Cities (堅決遏制部分城市房價過快上漲的通知), or the April 2010 Notice, which provides that: (i) if a first-time home buyer (including a borrower, his or her spouse and children under 18) buys a residence with a unit floor area of more than 90 sq.m. for self use, the minimum down payment shall be at least 30%; (ii) if a second-time home buyer uses mortgage financing, the minimum down payment shall be at least 50% of the purchase price with a minimum mortgage lending interest rate of 110% of the benchmark rate; (iii) if a third-time or more homebuyer uses mortgage financing, the minimum down payment and interest rate thereof will be further raised. The April 2010 Notice further requires that in cities where property prices are overly high with excessive price hike and strained housing supply, commercial banks may suspend extending bank loans for third-time or more home buyers in light of risk exposure. The provision of mortgage loans to non-local residents who cannot present the local tax clearance certificates or social insurances certification of more than one year will also be suspended.

On May 26, 2010, MOHURD, the PBOC and CBRC jointly issued the Circular on Regulating the Criteria for Identifying the Second Housing Unit in Connection with Commercial Mortgage Loans (關於規範商業性個人住房貸款中第二套房認定標準的通知), which provides, among other things, that the number of housing units owned by an individual purchaser who is applying for mortgage loans shall be determined by taking into account all housing units owned by the family members of such purchaser (including the purchaser and such purchaser's spouse and children under the age of 18), and that second-time or more purchasers of housing units will be subject to different credit policies when applying for mortgage loans.

On November 4, 2010, MOHURD and SAFE jointly promulgated the Notice on Further Regulating Administration of Purchase of Houses by Overseas Institutions and Individuals (關於進一步規範境外機構和個人購房管理的通知), pursuant to which an overseas individual can only purchase one house for self-use within the PRC and an overseas institution which has established a branch or representative office in the PRC can only purchase non-residential houses for business use in the city where it is registered within the PRC.

On January 26, 2011, General Office of the State Council issued Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知). According to this Notice,

- for those households who purchase the second set of housing through loan, the down payment ratio shall not be lower than 60%. The loan interest shall not be lower than 1.1 times of the benchmark interest rate. The respective branches of PBOC may raise the down payment ratio and interest rate on loans for second home based on the price control targets set by the local People's Government for newly constructed houses and the policy requirements, and on the basis of national unified credit policies;
- all municipalities, cities specifically designated in the State plan, provincial capitals and cities in which the housing prices are excessively high or rising rapidly are to formulate and implement measures for restriction of housing purchases strictly within a specified period. In principle, households with local registered residence which have already

owned one set of housing and households without local registered residence which are able to produce a local tax payment certificate or a proof of social insurance contribution for a certain number of years shall be restricted to purchasing one set of housing (including newly constructed commodity housing and second-hand housing). In respect of households with local registered residence which have already owned two sets or more housing, households without local registered residence which have already owned one set and more housing, and households without local registered residence which are unable to provide a local tax payment certificate or a proof of social insurance contribution for a certain number of years, no houses shall be sold to them within its own administrative area for the time being.

Till March 11, 2011, the people's governments of 34 cities, such as Beijing, Shanghai, Guangzhou, Tianjin, Nanjing, Chengdu, Wuxi, Qingdao, Hangzhou, Xi'an, Changzhou, Shengyang and Dalian, have respectively promulgated local measures for restriction of housing purchases to implement the Notice of the State Council on Issues Related to Further Enhancing the Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知).

On January 27, 2011, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Adjustment of Policy of Business Tax on Re-sale of Personal Residential Properties (財政部、國家稅務總局關於調整個人住房轉讓營業稅政策的通知) which repeals the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties promulgated on December 22, 2009 and provides that transfer of residential properties by individuals within five years of purchase is subject to business tax based on the sales income, while the business tax levied on the transfer of non-ordinary residential properties by individuals after five years of purchase is based on the difference between the sales income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date.

On January 27, 2011, Shanghai Municipal Government issued Provisional Measure on levying of Property Tax on Part of Individual Residential Properties in Shanghai on a Trial Basis (上海市開展對部分個人住房徵收房產稅試點的暫行辦法). According to this provisional measure, property tax shall be imposed on any second or more residential property purchased by Shanghai residents and any residential property purchased by non-Shanghai residents from January 28, 2011. For Shanghai residents who purchase the second residential property after January 28, 2011, if the construction area per capita of all residential properties owned by the family is no more than 60 square meters (the "tax-free construction area"), such newly purchased residential property could be temporarily exempted from property tax; if the construction area per capita of all residential properties owned by the family is more than 60 square meters, property tax will be levied on the construction area of the newly purchased residential properties, which exceeds the tax-free construction area. The property tax will be provisionally based on 70% of the market price of the taxable residential property with the tax rate at 0.6%. For the taxable residential property whose market price per square meter is no more than 2 times of last year's average sales price of newly constructed commodity residential properties of Shanghai, the tax rate shall temporarily be 0.4%. In February 2011, Shanghai municipal government announced that for taxable residential properties whose market price is no more than RMB28,426, the tax rate is 0.4%.

On January 28, 2011, Chongqing Municipal Government issued Provisional Measure on levying of Property Tax on Part of Individual Residential Properties on a Trial Basis (重慶市政府對部分個人住房徵收房產稅改革試點暫行辦法) and Detailed Implementation Rules on Administration of Collection of Property Tax of Residential Property in Chongqing Municipality (重慶市個人住房房產稅徵收管理實施細則). Within 9 trial districts, property tax shall be imposed on the detached commodity house, newly purchased high-end residential property and second ordinary residential property newly purchased by individuals who do not have local household registration (戶口), entities or jobs in Chongqing from January 28, 2011. The applicable tax rate of detached commodity house and high-end residential property shall be 0.5%, 1% and 1.2%

respectively based on the transaction prices of such properties. The applicable tax rate of second ordinary residential property newly purchased by individuals who do not have local household registration (戶口), entities or jobs in Chongqing is 0.5%. The provisional measure and its implementation rules also set detailed guidelines on tax exemption and administration on tax collection.

Environmental Protection

The laws and regulations governing the environmental protection requirements for real estate development in China include the PRC Environmental Protection Law (中華人民共和國環境保護法), the PRC Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the PRC Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the PRC Administrative Regulations on Environmental Protection for Development Projects (中華人民共和國建設項目環境保護管理條例). Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant authorities grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental protection standards and regulations before the property can be delivered to the purchasers.

Foreign Exchange Controls

Under the PRC Foreign Currency Administration Rules (中華人民共和國外匯管理條例) promulgated in 1996 and revised in 1997 and as amended in 2008 and various regulations issued by SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade-related receipts and payments and the payment interest and dividend. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from SAFE or its local office. Payments for transactions that take place within China must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the rules and regulations of the State.

On June 20, 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (the “Settlement Regulations”) which became effective on July 1, 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC published the Announcement on the Implementation of Foreign Exchange Settlement and Sale Banks by Foreign-invested Enterprises (外商投資企業實行銀行結售匯工作實施方案). The announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange, and specialized accounts for capital account receipts and payments at designated foreign exchange banks. On April 13, 2006, the PBOC promulgated the Announcement [2006] No. 5. The announcement provides that the system for opening, amending and closing current account-related foreign exchange accounts by enterprises shall be changed from one requiring advance

examination and approval to one in which matters shall be handled directly by banks in line with foreign exchange control requirements and commercial practice and reported to the foreign exchange bureau for its records. The limits on current account-related foreign exchange accounts of enterprises shall be increased. On the same day, SAFE issued a Notice on Adjusting the Policies Concerning the Administration of Current Foreign Exchange Accounts (關於調整經常項目外匯管理政策的通知). The notice abolished the advance examination for opening of current account-related foreign exchange accounts and improved the limits on current account-related foreign exchange accounts.

On October 25, 1998, the PBOC and SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (關於停辦外匯調劑業務的通知) pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprises shall be regulated under the system for the settlement and sale of foreign exchange applicable to banks.

On July 21, 2005, the PBOC announced that, beginning from July 21, 2005, China will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar. PBOC will announce the closing price of a foreign currency such as the US dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of the Renminbi on the following business day.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (except for foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares is not required to be sold to designated banks, but may be deposited in foreign exchange accounts with designated banks.

Enterprises in China (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, upon presentation of valid receipts and proof. Foreign-invested enterprises which need foreign currencies for the distribution of profits to their shareholders, and Chinese enterprises which, in accordance with regulations, are required to pay dividends to shareholders in foreign currencies, may with the approval of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction and prior approval from SAFE or its competent branch.

In January and April 2005, SAFE issued two regulations that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE also announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardization of all cross-border flows of funds.

In October 2005, SAFE issued a Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管

理有關問題的通知) which became effective as of November 1, 2005. According to the notice, a special purpose company refers to an offshore company directly established or indirectly controlled by a domestic resident legal person or domestic resident natural person for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprises. Prior to establishing or assuming control of a special purpose company, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. The notice applies retroactively. These PRC residents must also amend the registration with the relevant SAFE branch in the following circumstances: (1) the PRC residents have completed the injection of equity investment or assets of a domestic company into the special purpose company; (2) the overseas funding of the special purpose company has been completed; and (3) there is a material change in the capital of the special purpose company. Under the rules, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the violator, including restrictions on the payment of dividends and other distributions to its offshore parent company, and may also subject the violators to penalties under the PRC foreign exchange administration regulations.

On September 1, 2006, SAFE and Ministry of Construction jointly issued a Notice on Regulating Issues Relevant to Administration of Foreign Exchange in Real Estate Market (關於規範房地產市場外匯管理有關問題的通知). The notice provides: (i) where a foreign-invested real estate enterprise fails to pay the registered capital in full or to acquire a state-owned land use right certificate or to make its capital fund for a development project reach 35% of the total investment to the project, the foreign exchange bureau will not handle its foreign debt registration or approve the conversion of foreign debt into Renminbi; (ii) where a foreign organization or individual acquires a domestic real estate enterprise, if it (he) fails to pay the transfer price in a lump sum by its (his) own fund, the foreign exchange bureau will not handle the registration of foreign exchange income from transfer of equities; (iii) Chinese and foreign investors of a foreign-invested real estate enterprise shall not reach an agreement including any clause which promises a fixed return or fixed revenue in any disguised form to any party, otherwise the foreign exchange bureau will not handle the foreign exchange registration or registration modification of foreign-invested enterprise; and (iv) funds in a foreign exchange account exclusive to foreign investors opened by a foreign organization or individual in a domestic bank shall not be used for real estate development or operation. The notice also provides for a foreign exchange working process related to branches of overseas institutions established within China, overseas individuals, Hong Kong, Macao or Taiwan residents and overseas Chinese purchasing or selling commodity houses within China.

On December 25, 2006, PBOC promulgated the Measures for the Administration of Individual Foreign Exchange (個人外匯管理辦法). The measures use category administration to classify the individual foreign exchange operations as domestic and overseas by participants in the transaction, and current accounts and capital accounts by the nature of the transaction. The measures set the annual total amount of foreign exchange for settlement of individuals and for purchase of domestic individuals, and provide different procedures for individuals who set foreign exchange over the annual total amount and domestic individuals who purchase foreign exchange over the annual total amount according to current accounts items and capital accounts items.

On January 5, 2007, SAFE promulgated the Detailed Rules for the Implementation of the Measures for the Administration of Individual Foreign Exchange (個人外匯管理辦法實施細則). The Detailed Rules provide, amongst others, that (i) the annual total amount of foreign exchange for settlement of individuals and for purchase of domestic individuals is USD50,000; (ii) domestic individuals who engage in external direct investment satisfying the relevant rules shall not only get approval from the foreign exchange bureau, but also complete the overseas investment foreign exchange registration procedures before they can purchase foreign exchange or remit with their own foreign exchange; (iii) domestic individuals can engage in financial investment such as overseas fixed-revenue right-interest, etc. through qualified domestic institutional investors such as

banks and fund management companies; (iv) in case domestic individuals engage in such foreign exchange operations as an employee stock ownership plan of an overseas listed company or subscription option program, they can only deal with such options after completing registration with the foreign exchange bureau through their company or domestic agency institutions; and (v) the administration of foreign exchange on overseas loans, debts, guarantees, etc. for domestic individuals will be gradually opened.

On August 29, 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知), or Circular No. 142. Pursuant to Circular No. 142, a foreign-invested enterprise's Renminbi fund received from the settlement of its foreign currency capital must be used within the business scope as approved by the government authority that approved the establishment of such foreign-invested enterprise, and such Renminbi fund cannot be used for domestic equity investment unless it is otherwise provided for. It is also prohibited to use the settled foreign exchange capital for purchasing domestic real estate for any purpose other than its own use, unless the enterprise is a foreign-funded real estate enterprise.

Mainland China Taxation

Because we are not incorporated in mainland China, your investment in our Notes is expected to be largely exempt from PRC tax laws, except as disclosed in the section entitled “Risk Factors — Risks Relating to Our Business — We may be deemed a PRC resident enterprise under the EIT Law, which may subject us to PRC taxation on our worldwide income, require us to withhold taxes on interest we pay on the Notes and require holders of the Notes to pay taxes on gains realized from the sale of the Notes.” But because virtually all of our business operations are in mainland China and we carry out these business operations through operating subsidiaries and joint ventures organized under the PRC law, our PRC operations and our operating subsidiaries and joint ventures in mainland China are subject to PRC tax laws and regulations, which indirectly affect your investment in our Notes.

Dividends from Our PRC Operations

Under the PRC tax laws effective prior to January 1, 2008, dividends paid by our PRC subsidiaries or joint ventures to us were exempt from PRC income tax. However, pursuant to the EIT Law and its implementation rules that became effective on January 1, 2008, dividends payable by foreign-invested enterprises, such as subsidiaries and joint ventures in China, to their foreign investors may be subject to a withholding tax at a rate of 10% unless any lower treaty rate is applicable.

Under the EIT Law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in China are treated as “resident enterprises” for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Under the Implementation Rules of the Enterprise Income Tax Law (中華人民共和國企業所得稅法實施細則), “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. If a foreign enterprise is held to be a PRC resident enterprise for PRC tax purpose by relevant PRC tax authorities, the dividends (not including investment income from stocks issued publicly by other PRC resident enterprises and traded on stock exchanges where the holding period is less than 12 months consecutively) received by this enterprise from its direct equity investment in other PRC resident enterprises should be exempt from enterprise income tax; if this enterprise is held to be a non-resident enterprise, the dividends received from its direct equity investment in PRC resident enterprises shall be subject to enterprise income tax (withholding tax) at the rate of 10% unless a preferential rate is provided by applicable tax

treaties or arrangements entered into between the PRC and the country or region where this enterprise is established. Because this tax law is new and its implementation rules are newly issued, there is uncertainty as to how this new law and its implementation rules will be interpreted or implemented by relevant tax bureaus.

Our Operations in Mainland China

Our subsidiaries and joint ventures through which we conduct our business operations in mainland China are subject to PRC tax laws and regulations.

Deed Tax. Under the PRC Interim Regulation on Deed Tax (中華人民共和國契稅暫行條例) enacted by the State Council on July 7, 1997 and enforced on October 1, 1997, a deed tax is chargeable to transferees of land use rights and/or ownership in real properties within the territory of mainland China. These taxable transfers include:

- grant of use right of state-owned land;
- sale, gift and exchange of land use rights, other than transfer of right to manage rural collective land; and
- sale, gift and exchange of real properties.

Deed tax rate is between 3% to 5% subject to determination by local governments at the provincial level in light of the local conditions. In October 2008, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Adjustments to Taxation on Real Property Transactions (財政部國家稅務總局關於調整房地產交易環節稅收政策的通知), pursuant to which, since November 1, 2008, the rate of deed tax has been temporarily reduced to 1% for a first-time home buyer of an ordinary residence with a GFA less than 90 sq.m.; individuals who sell or purchase residential properties are temporarily exempted from stamp duty and who sell residential properties are temporarily exempted from land value-added tax. However, the aforesaid preferential policy regarding deed tax has been replaced by the Notice on Adjustment of Preferential Policies Regarding Deed Tax and Individual Income Tax Incurred in Transfer of Real Property jointly promulgated by the Ministry of Finance, the State Administration of Taxation and MOHURD (財政部、國家稅務總局、住房和城鄉建設部關於調整房地產交易環節契稅個人所得稅優惠政策的通知) on September 29, 2010 and enforced on October 1, 2010, pursuant to which, in the case that an individual purchases an ordinary house which is the only house for the family (including the purchaser, the spouse and minor children), deed tax is reduced by half; in the case that an individual purchases an ordinary house with a GFA of 90 sq.m. or below which is the only house for the family, deed tax is levied at a rate of 1%.

On March 9, 2010, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Deed Tax Policies of first-time purchase of ordinary residential property (關於首次購買普通住房有關契稅政策的通知). Under this Notice, in case any of the home buyers who jointly purchase an ordinary residential property with a GFA under 90 square meters, has property purchase record, the preferential deed tax policies of first-time purchase of ordinary residential property could not be applied to the joint buyers.

Enterprise Income Tax. Prior to the EIT Law and its implementation rules that became effective on January 1, 2008, our PRC subsidiaries and joint ventures were generally subject to a 33% corporate income tax. Under the EIT Law, effective from January 1, 2008, a unified enterprise income tax rate is set at 25% for both domestic enterprises and foreign-invested enterprises. The EIT Law and its implementation rules provide certain relief to enterprises that were established prior to March 16, 2007, including (1) continuously enjoying the preferential income tax rate during a five-year transition period if such enterprises are entitled to preferential income tax rate before the effectiveness of the EIT Law; (2) continuously enjoying the preferential income tax rate until its expiry if such enterprises are entitled to tax holidays for a fixed period

under the relevant laws and regulations. However, where the preferential tax treatment has not commenced due to losses or accumulated loss not being fully offset, such preferential tax treatment shall be deemed to commence from January 1, 2008 and expire on December 31, 2013. In addition, dividends from PRC subsidiaries to their foreign shareholders will be subject to a withholding tax at a rate of 10% unless any lower treaty rate is applicable. However, under the EIT Law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in China are treated as “resident enterprises” for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Dividends from PRC subsidiaries to their foreign shareholders are excluded from such taxable worldwide income. Under the implementation rules of the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Because this tax law is new and its implementation rules are newly issued, there is uncertainty as to how this new law and its implementation rules will be interpreted or implemented by relevant tax bureaus. According to the Arrangements in respect of Prevention of Double Taxation and Tax Evasion between Hong Kong and PRC (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), the PRC tax resident enterprise who distributes dividends to its Hong Kong shareholders should be levied enterprise income tax according to PRC laws, however, if the beneficiary of the dividends is a Hong Kong tax resident, who directly hold not less than 25% equity of the aforesaid enterprise (i.e., the dividends distributor), the tax levied should be 5% of the distributed dividends. An approval from the local tax authority is required in order to benefit from the lower treaty rate and such lower rate may be denied if the recipient company is a company with no business substance.

On December 10, 2009, the State Administration of Taxation issued the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfer by Non-PRC Resident Enterprises (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) which was enforced on January 1, 2008. The Notice requires the non-PRC resident enterprise to file tax returns application to the local tax administrative authority within 7 days from the date stipulated in the share transfer contract or agreement. If the non-PRC resident enterprise indirectly disposes of its equity interests in a PRC resident company by selling the shares of an intermediate holding company located in a jurisdiction where the effective tax rate is lower than 12.5% or which exempts offshore income from tax, this Notice requires the seller to submit relevant information and documents, including the share transfer agreement and statements in relation to the intermediate holding company’s business, to the in-charge tax authorities of the PRC resident company within 30 days upon conclusion of the share transfer agreement. In case the foreign investor (actual controller) indirectly transfer the equity interests in a PRC resident company via abuse of shareholding structure and such transaction does not have commercial substance and is intended to avoid PRC enterprise income tax liabilities, upon examination and approval of SAT, the PRC tax authorities may have the right to invoke the general anti-avoidance rules and disregard the intermediate holding company.

On April 11, 2008, the State Administration of Taxation issued the Notice of the Prepayment of Enterprise Income Tax of the Real Estate Development Enterprises (關於房地產開發企業所得稅預繳問題的通知), requiring real estate developers to prepay enterprise income tax by quarter (or month) according to the current actual profit. According to the Notice, for the incomes generated from the pre-sale before completion of the construction of buildings for residential or commercial use or other kinds, the tax prepayments thereof shall be paid upon calculation of the estimated quarterly or monthly profit according to the pre-set estimated profit rate, which shall be readjusted according to the actual profit after the completion of the construction of the buildings and settlement of the taxable cost. With respect to non-low-price economy residences, the preset estimated profit rate for the buildings located at provincial-level cities and suburbs shall be not less than 20%, while that for prefectural-level cities and suburbs shall be not less than 15%; for the low-price economy residence, the preset estimated profit rate shall be not less than 3%.

Business Tax. Under the PRC Interim Regulation on Business Tax (中華人民共和國營業稅暫行條例) of 1994, as amended in 2008 and entered into effect on January 1, 2009 and its Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance on December 25, 1993, which was later amended in 2008 and became enforceable on January 1, 2009, the tax rate on the transfer of immovable properties, services in mainland China are subject to business tax. Taxable services include sale of real property in mainland China. Business tax rate is between 3% to 20% depending on the type of services provided. Sale of real properties and other improvements on the land attract a business tax at the rate of 5% of the turnover of the selling enterprise payable to the relevant local tax authorities.

On May 30, 2006, the State Administration of Taxation issued the Notice on Relevant Issues of Strengthening Administration of Collection of Real Estate Business Tax (國家稅務總局關於加強住房營業稅徵收管理有關問題的通知). According to the notice, from June 1, 2006, business tax will be imposed on the full amount of the sale income, upon the transfer of a residential house by an individual within five years from the purchase date. In the case of a residence other than an ordinary residence, business tax will be imposed on the difference between the sale income and the purchase price, provided that the transfer occurs after five years from the purchase date.

On December 29, 2008, the Ministry of Finance and the State Administration of Taxation issued a Notice on the Policy of Business Tax on Re-sale of Individual Residential Properties (財政部、國家稅務總局關於個人住房轉讓營業稅政策的通知), from January 1, 2009 to December 31, 2009, business tax will be imposed on the full amount of the sale income, upon the transfer a non-ordinary residence by an individual within two years from the purchase date; for the transfer of a non-ordinary residence which is more than two years from the purchase date and ordinary residence which is within two years from the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price; and in the case of an ordinary residence, the business tax is exempted if that transfer occurs after two years from the purchase date.

On December 22, 2009, the State Council terminated the policy on preferential treatment relating to business taxes payable upon transfers of residential properties by property owners as previously adopted in December 2008 by the PRC government in response to the global economic slowdown, and the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties (財政部、國家稅務總局關於調整個人住房轉讓營業稅政策的通知) which abolished the aforesaid Ministry of Finance and the State Administration of Taxation issued a Notice on the Policy of Business Tax on Re-sale of Individual Residential Properties to curtail speculations in the property market in response to the property price rises across the country. Pursuant to the Notice, effective from January 1, 2010, business tax will be imposed on the full amount of the sale income upon the transfer of non-ordinary residence by an individual within five years, instead of two years, from the purchase date. For the transfer of non-ordinary residence which is more than five years from the purchase date and ordinary residence which is within five years of the purchase date, the business tax is to be levied on the difference between the sale income and the purchase prices. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date.

On January 27, 2011, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Adjustment of Policy of Business Tax on Re-sale of Personal Residential Properties (財政部、國家稅務總局關於調整個人住房轉讓營業稅政策的通知) which repeals the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties promulgated on December 22, 2009 and provides that transfer of residential properties by individuals within five years of purchase is subject to business tax based on the sales income,

while the business tax levied on the transfer of non-ordinary residential properties by individuals after five years of purchase is based on the difference between the sales income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date.

Land Appreciation Tax. Under the PRC Interim Regulation on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例) of 1994 and its implementation rules of 1995, LAT applies to both domestic and foreign investors in real properties in mainland China, irrespective of whether they are corporate entities or individuals. The tax is payable by a taxpayer on the appreciation value derived from the transfer of land use rights, buildings or other facilities on such land, after deducting the deductible items that include the following:

- payments made to acquire land use rights;
- costs and charges incurred in connection with the land development;
- construction costs and charges in the case of newly constructed buildings and ancillary facilities;
- assessed value in the case of old buildings and facilities;
- taxes paid or payable in connection with the transfer of the land use rights, buildings or other facilities on such land; and
- other deductible items allowed by the Ministry of Finance.

The tax rate is progressive and ranges from 30% to 60% of the appreciation value as compared to the “deductible items” as follows:

| <u>Appreciation value</u> | <u>LAT rate</u> |
|---|-----------------|
| Portion not exceeding 50% of the sum of deductible items | 30% |
| Portion over 50% but not more than 100% of the sum of deductible items | 40% |
| Portion over 100% but not more than 200% of the sum of deductible items | 50% |
| Portion over 200% of the sum of deductible items | 60% |

According to the requirements of the LAT Provisional Regulations, the LAT Detailed Implementation Rules and the Notice issued by the MOF in respect of the Levy and Exemption of LAT for Development and Transfer Contracts signed before January 1, 1994 (財政部關於對一九九四年一月一日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知) which was announced by MOFCOM and State Administration of Taxation on January 27, 1995, LAT shall be exempted under any one of the following circumstances:

- Taxpayers constructing ordinary residential properties for sale (i.e., the residences built in accordance with the local standard for residential properties used by the general population, excluding deluxe apartments, villas, resorts and other high-end premises), where the appreciation amount does not exceed 20% of the sum of deductible items;
- Real estate taken over or the grant of state-owned land use right of repossessed land which were approved by the government according to laws due to the construction requirements of the state; and
- Due to redeployment of work or improvement of living standard, transfers by individuals of originally self-used residential properties, with five years or longer of self-used residence and with tax authorities’ approval.

According to the notice, the LAT regulation does not apply to the following transfers of land use rights:

- real estate transfer contracts executed before January 1, 1994; and
- first-time transfers of land use rights and/or premises and buildings during the five years commencing on January 1, 1994 if the land grant contracts were executed or the development projects were approved before January 1, 1994 and the capital has been injected for the development in compliance with the relevant regulations.

After the enactment of the LAT regulations and the implementation rules in 1994 and 1995, respectively, due to the long period of time typically required for real estate developments and their transfers, many jurisdictions, while implementing these regulations and rules, did not require real estate development enterprises to declare and pay the LAT as they did other taxes. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, State Administration of Taxation, Ministry of Construction and State Land Administration Bureau separately and jointly issued several notices to reiterate that, after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the real estate is located, and pay the LAT in accordance with the amount as calculated by the tax authority and within the time period as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority will not process the relevant title change procedures, and will not issue the property ownership certificates.

The State Administration of Taxation issued a further notice in July 2002 to require local tax authorities to require prepayment of LAT on basis of proceeds from pre-sale of real estate.

In December 2006, the State Administration of Taxation issued a Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (國家稅務總局關於房地產開發企業土地增值稅清算管理有關問題通知), which came into effect on February 1, 2007. The notice required settlement of LAT liabilities by real estate developers. Provincial tax authorities are given authority to formulate their implementation rules according to the notice and their local situation.

To further strengthen LAT collection, in May 2009, the State Administration of Taxation released the Rules on the Administration of the Settlement of Land Appreciation Tax (國家稅務總局關於土地增值稅清算管理規程), which come into force on June 1, 2009.

In May 2010, the State Administration of Taxation issued the Circular on Settlement of Land Appreciation Tax (國家稅務總局關於土地增值稅清算有關問題的通知) to strengthen the settlement of LAT. The circular clarifies certain issues with respect to the calculation and settlement of LAT, such as (i) the recognition of the revenue upon the settlement of LAT; and (ii) the deduction of fees incurred in connection with the property development.

In May 2010, the State Administration of Taxation issued the Notice on Strengthening the Collection of Land Appreciation Tax (國家稅務總局關於加強土地增值稅徵管工作的通知), which requires that except for the affordable residence the minimum LAT prepayment rate shall be 2% for provinces in the eastern region of China, 1.5% for provinces in the central and northeastern regions, and 1% for provinces in the western region. According to the notice, the local tax bureaus shall determine the applicable LAT prepayment rates based on the property type.

Urban Land Use Tax. Pursuant to the PRC Interim Regulations on Land Use Tax in respect of Urban Land (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council in September 1988, the land use tax in respect of urban land is levied according to the area of relevant land. The annual tax on urban land was between RMB 0.2 and RMB 10 per sq.m.. An amendment by the State Council in December 2006 changed the annual tax rate to between RMB 0.6 and RMB 30 per sq.m. of urban land. The changed rates in detail are as follows:

- between 1.5 yuan and 30 yuan in large cities;
- between 1.2 yuan and 24 yuan in medium cities;
- between 0.9 yuan and 18 yuan in small cities; and
- between 0.6 yuan and 12 yuan in county towns, towns/bases operated under an organizational system, and industrial and mining districts.

According to the provisional regulations, land use tax shall be collected from foreign invested enterprises, foreign enterprises and foreign individuals.

On June 11, 2007, SAT issued the Notice on Canceling Certain Administrative Examination and Approval Items for Local Taxes (關於取消部分地方稅行政審批專案的通知), which came into force as of the date of its issuance. Under this notice, certain preferential treatments of land use tax have been canceled as follows:

- for certain infrastructure construction projects, in particular the large-scale infrastructure construction projects supported by relevant national industry policies, which need large areas of land and long-term construction but without operational revenue during the construction period, the exemption or reduction of land use tax may be granted by the taxation bureau at the provincial level based on the specified situations.
- for the real estate development enterprises that have difficulty in paying the land use tax prior to the sale of commercial real estates, the exemption or reduction of land use tax may be granted by the taxation bureau at the provincial level based on the specified situations.
- the exemption or reduction of land use tax as a benefit for using land for port construction, electric power industry and coal industry.

Property Tax. Under the PRC Interim Regulations on Property Tax (中華人民共和國房產稅暫行條例) promulgated by the State Council in September 1986, property tax applicable to domestic enterprises is 1.2% if it is calculated on the basis of the residual value of a building and 12% if it is calculated on the basis of the rental. The following categories of buildings shall be exempt from property tax:

- a building of governmental agencies, people's organizations and the armed forces for their own use;
- a building of institutions whose operating expenses are allocated by State finance departments for their own use;
- a building religious temples and shrines' parks and places of historic interest and scenic beauty for their own use;
- a building owned by individuals for non-business purposes; and
- tax exemption approved by the Ministry of Finance for other buildings.

And according to the Notice on Issues Relating to Assessment of Property Tax against Foreign-invested Enterprises and Foreign Individuals (關於對外資企業及外籍個人徵收房產稅有關問題的通知) promulgated by the Ministry of Finance and the State Administration of Tax on January 12, 2009, the foreign-invested enterprises, foreign enterprises and foreign individuals are to have been levied the property tax (房產稅) since January 1, 2009.

On January 27, 2011, Shanghai Municipal Government issued Provisional Measure on levying of Property Tax on Part of Individual Residential Properties in Shanghai on a Trial Basis (上海市開展對部分個人住房徵收房產稅試點的暫行辦法). According to this provisional measure, property tax shall be imposed on any second or more residential property purchased by Shanghai residents and any residential property purchased by non-Shanghai residents from January 28, 2011. For Shanghai residents who purchase the second residential property after January 28, 2011, if the construction area per capita of all residential properties owned by the family is no more than 60 square meters (the “tax-free construction area”), such newly purchased residential property could be temporarily exempted from property tax; if the construction area per capita of all residential properties owned by the family is more than 60 square meters, property tax will be levied on the construction area of the newly purchased residential properties, which exceeds the tax-free construction area. The property tax will be provisionally based on 70% of the market price of the taxable residential property with the tax rate at 0.6%. For the taxable residential property whose market price per square meter is no more than 2 times of last year’s average sales price of newly constructed commodity residential properties of Shanghai, the tax rate shall temporarily be 0.4%. In February 2011, Shanghai municipal government announced that for taxable residential properties whose market price is no more than RMB28,426, the tax rate is 0.4%.

On January 28, 2011, Chongqing Municipal Government issued Provisional Measure on levying of Property Tax on Part of Individual Residential Properties on a Trial Basis (重慶市政府對部分個人住房徵收房產稅改革試點暫行辦法) and Detailed Implementation Rules on Administration of Collection of Property Tax of Residential Property in Chongqing Municipality (重慶市個人住房房產稅徵收管理實施細則). Within 9 trial districts, property tax shall be imposed on the detached commodity house, newly purchased high-end residential property and second ordinary residential property newly purchased by individuals who do not have local household registration (戶口), entities or jobs in Chongqing from January 28, 2011. The applicable tax rate of detached commodity house and high-end residential property shall be 0.5%, 1% and 1.2% respectively based on the transaction prices of such properties. The applicable tax rate of second ordinary residential property newly purchased by individuals who do not have local household registration (戶口), entities or jobs in Chongqing is 0.5%. The provisional measure and its implementation rules also set detailed guidelines on tax exemption and administration on tax collection.

Stamp Duty. Under the PRC Interim Regulations on Stamp Duty (中華人民共和國印花稅暫行條例) promulgated by the State Council in August 1988, for property transfer instruments, including those in respect of property ownership transfers, the duty rate is 0.05% of the amount stated therein; for permits and certificates relating to rights, including property ownership certificates and land use rights certificates, stamp duty is levied on an item-by-item basis of RMB 5 per item.

Municipal Maintenance Tax. Under the PRC Interim Regulations on Municipal Maintenance Tax (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council in 1985, a taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax is required to pay municipal maintenance tax calculated on the basis of product tax, value-added tax and business tax. The tax rate is 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

Under the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises issued by

the State Administration of Taxation (國家稅務總局關於外商投資企業和外國企業暫不徵收城市維護建設稅和教育費附加的通知) in February 1994 and the Approval on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-Invested Freightage Enterprises (關於外商投資貨物運輸企業免徵城市維護建設稅和教育費附加問題的批覆) issued by State Administration of Taxation on February 25, 1994 and on September 14, 2005, respectively, the municipal maintenance tax is not applicable to foreign-invested enterprises for the time being, until further explicit stipulations are issued by the State Council.

In October 2010, the State Council issued the Notice on Unification of the Application of Municipal Maintenance Tax and Education Surcharge by Domestic and Foreign Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), pursuant to which, from December 1, 2010, municipal maintenance tax is applicable to both foreign-invested enterprises, foreign enterprises and foreign individuals as well as domestic enterprises and individuals.

Pursuant to the Notice on Relevant Issues of Imposition of Municipal Maintenance and Education Surcharge on Foreign-invested Enterprises promulgated by the Ministry of Finance and the State Administration of Taxation (財政部和國家稅務總局關於對外資企業徵收城市維護建設稅和教育費附加有關問題的通知) in November 2010, foreign-invested enterprises must pay municipal maintenance tax on any value-added tax, consumption tax and business tax incurred on or after December 1, 2010. However, foreign-invested enterprises will be exempted from municipal maintenance tax on any value-added tax, consumption tax and business tax incurred before December 1, 2010.

Education Surcharge. Under the Interim Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council in April 1986 and amended in 1990 and in August 2005, any taxpayer, whether an individual or otherwise, of value-added tax, business tax or consumption tax is liable for an education surcharge, unless such taxpayer is required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas. The Education Surcharge rate is 3% calculated on the basis of consumption tax, value-added tax and business tax. Under the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises issued by the State Administration of Taxation (國家稅務總局關於外商投資企業和外國企業暫不徵收城市維護建設稅和教育費附加的通知) in February 1994, the Supplementary Circular Concerning Imposition of Education Surcharge issued by the State Council (國務院關於教育費附加徵收問題的補充通知) in October 1994 and the Reply on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-Invested Freightage Enterprises” (關於外商投資貨物運輸企業免徵城市維護建設稅和教育費附加問題的批覆) issued by State Administration of Taxation on February 25, 1994 and on September 14, 2005, respectively, whether foreign investment enterprises are subject to the education surcharge shall be determined in accordance with notices issued by the State Council and such tax is not applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

Pursuant to the aforesaid Unification of Application of Municipal Maintenance Tax and Education Surcharge by Domestic and Foreign Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), from December 1, 2010 an education surcharge is applicable to both foreign-invested enterprises, foreign enterprises and foreign individuals as well as domestic enterprises and individuals.

Pursuant to the aforesaid Notice on Relevant Issues of Imposition of Municipal Maintenance and Education Surcharge on Foreign-invested Enterprises (關於對外資企業徵收城市維護建設稅和教育費附加有關問題的通知), foreign-invested enterprises must pay an education surcharge on any value-added tax, consumption tax and business tax incurred on or after December 1, 2010. However, foreign-invested enterprises will be exempted from paying an education surcharge on any value-added tax, consumption tax and business tax incurred before December 1, 2010.

MANAGEMENT

Directors and Senior Management

The following table sets forth information regarding our directors as of the date of this offering memorandum.

| Name | Age | Position/Title |
|--------------------------------------|-----|---|
| Wu Yajun | 46 | Chairperson, Chief Executive Officer and Executive Director |
| Fang Shengtao | 37 | Chief Human Resources Officer and Executive Director |
| Chen Kai | 41 | General Manager of the Operation and Business Development Department and Executive Director |
| Qin Lihong | 37 | General Manager of the Customer and Corporate Branding Department and Executive Director |
| Frederick Peter Churchouse | 61 | Independent Non-Executive Director |
| Chan Chi On, Derek | 47 | Independent Non-Executive Director |
| Xiang Bing | 48 | Independent Non-Executive Director |

Executive Directors

Madam Wu Yajun (吳亞軍), aged 46, was appointed as executive director of the Company on December 21, 2007, and is the Chairperson and Chief Executive Officer of the Group. Madam Wu joined the Group since its inception in 1994. Madam Wu graduated from the Department of Navigation Engineering of the Northwestern Polytechnical University in 1984. Madam Wu serves as a member of the National Peoples' Congress, Vice-Chairperson of the Federation of Industry & Commerce of Chongqing Municipality and Vice-Chairperson of the Real Estate Branch Chamber of the Chongqing General Chamber of Commerce. Madam Wu has extensive experience in property development, property investment and property management.

Mr. Fang Shengtao (房晟陶), aged 37, was appointed as executive director and Chairman of Remuneration Committee of the Company on January 15, 2008, and is the Chief Human Resources Officer of the Group. Mr. Fang joined the Group in 2005. Mr. Fang graduated from the Department of Mechanical Engineering of Tsinghua University in 1995 with a Bachelor's degree in Engineering and obtained a Master of Business Administration degree from INSEAD in 2002. Prior to joining the Group, Mr. Fang worked for Procter & Gamble (Guangzhou) Ltd and founded the Shanghai Tuosheng Associates, a human resources consulting company.

Mr. Chen Kai (陳凱), aged 41, was appointed as executive director of the Company on September 8, 2009, and is the General Manager of the Operation and Business Development Department of the Group. Mr. Chen joined the Group in 2008. Mr. Chen graduated from the Zhejiang University with a Master's degree in Engineering in 1995. Prior to joining the Group, Mr. Chen worked for the China Resources Group and served as the executive director and assistant general manager of China Resources Land Limited, a company listed on the Stock Exchange of Hong Kong.

Mr. Qin Lihong (秦力洪), aged 37, was appointed as executive director of the Company on September 8, 2009, and is the General Manager of the Group's Customer and Corporate Branding Department. Mr. Qin joined the Group in 2008. Mr. Qin graduated from the School of International Studies of Peking University in 1999 with a Master degree in Law. He obtained a Master's degree in Public Policy (MPP) from John Fitzgerald Kennedy School of Government, Harvard University in 2001. Prior to joining the Group, Mr. Qin worked in the Marketing Department of Procter & Gamble (Guangzhou) Limited, Roland Berger Strategy Consultants and Anhui Chery Automobile Sales and Service Company.

Independent Non-executive Directors

Mr. Frederick Peter Churchouse, aged 61, was appointed as independent non-executive director and member of the Audit Committee of the Company on November 1, 2009. He is the managing director of Portwood Capital Limited. Mr. Churchouse earned a Bachelor of Arts degree, and a Master of Social Science degree from the University of Waikato in New Zealand. He has been a director of LIM Advisers Limited, the senior portfolio manager for the LIM Asia Alternative Real Estate Fund and a managing director of the research department of Morgan Stanley.

Mr. Chan Chi On, Derek (陳志安), aged 47, was appointed as independent non-executive director, Chairman of the Audit Committee and the member of the Remuneration Committee of the Company on November 1, 2009. Mr. Chan is a Group Executive Director of Haitong International Securities Group Limited, a company listed on the Stock Exchange of Hong Kong and is also currently the Managing Director of Haitong International Capital Limited, in charge of its corporate finance division. Mr. Chan graduated from the University of Hong Kong with a Bachelor degree in Social Sciences (majoring in Economics) in 1985 and from the Hong Kong University of Science & Technology with a Master degree in Business Administration in 1994. Between 1989 and 1996, he worked for The Stock Exchange of Hong Kong Limited. He is an independent non-executive director of GZI REIT Asset Management Limited and Sheng Yuan Holdings Limited, both companies are listed on the Stock Exchange of Hong Kong and is also an adjunct professor in the School of Accounting and Finance of the Hong Kong Polytechnic University. Mr. Chan possesses over 20 years of experience in the financial services industry.

Dr. Xiang Bing (項兵), aged 48, was appointed as independent non-executive director, member of the Audit Committee and the Remuneration Committee of the Company on November 1, 2009. He obtained a Doctoral degree in accounting from the University of Alberta in Canada. Dr. Xiang is currently the founding dean and professor of the Cheung Kong Graduate School of Business. Dr. Xiang is an independent non-executive director of Dan Form Holdings Company Limited, HC International, Inc., Enerchina Holdings Limited, Sinolink Worldwide Holdings Limited, China Dongxiang (Group) Co., Ltd., Little Sheep Group Limited, Peak Sport Products Co., Limited and Guangzhou Automobile Group Co., Ltd.. All of the above mentioned companies are listed on the Hong Kong Stock Exchange. Dr. Xiang is an independent non-executive director LDK Solar Co., Ltd., Perfect World Co., Ltd., E-House (China) Holdings Limited. All of the above mentioned companies are listed in the U.S. Dr. Xiang is an independent non-executive director of Yunnan Baiyao Group Co., Ltd, a company listed on the Shenzhen Stock Exchange. In the past 3 years, Dr. Xiang was an independent director of Shaanxi Qinchuan Machinery Development Co., Ltd., Guangdong Midea Electric Appliances Co., Ltd., TCL Corporation., Shenzhen Terca Technology Co., Ltd.. All of these companies are listed on Shenzhen Stock Exchange. Dr. Xiang also was an independent non-executive director of Jutal offshore Oil Services Limited, a company listed on the Hong Kong Stock Exchange.

Senior Management

Mr. Shao Mingxiao (邵明曉), aged 44, is the Executive Deputy CEO of the Group. Mr. Shao joined the Group in 2006. Mr. Shao graduated from Renmin University of China with a Master of Economics degree in 1992. Prior to joining the Group, Mr. Shao served as the Deputy General Manager of Hangyu Economic Development Company, a subsidiary of the Beijing Capital Group, and Beijing Xinlian Xiechuang Real Estate Development Limited respectively. Mr. Shao was also the General Manager of Beijing Zhongjing Yiyuan Real Estate Development Limited and the Director of real estate development division of Beijing Hualian Group.

Mr. Zhou Dekang (周德康), aged 43, is the General Manager in charge of our Chongqing business operations. Mr. Zhou joined the Group in 2005. Mr. Zhou graduated from the Architecture Institute of Chongqing Jianzhu University and obtained a bachelor's degree majoring in Architecture in 1989. Prior to joining the Group, Mr. Zhou had been the head of the construction division of the Chongqing City Planning and Design Research Institute and a director in charge of design at Chengdu Bo Rui Real Estate Development Limited.

Mr. Feng Jinyi (馮勁義), aged 39, is the General Manager in charge of our business operations in Southern Jiangsu. Mr. Feng joined the Group in 2008. Mr. Feng graduated from Changsha Communication College (currently known as Changsha University of Science & Technology) in 1994 with a bachelor's degree in engineering. Prior to joining the Group, Mr. Feng worked as a managing director in No. 3 Aviation Engineering Design Institute Co., Ltd., Shanghai Kangqiao Bandao (Group) Co., Ltd. and Zhejiang Jubao Real Estate Co., Ltd..

Mr. Wei Hua Ning (韋華寧), aged 33, was appointed as a General Manager of finance department of the Group. He joined the Group in 2006 as the Head of Strategic Management Centre and Operational Management Centre. He is the General Manager of Finance Department of the Group since June 2010. Mr. Wei holds a doctoral degree in management from the Shanghai University of Finance and Economics (School of Accountancy) and specialises in Research on Corporate Strategy and Execution. Prior to joining the Group, he has previously worked as a researcher at Center for Strategy Execution of The Cheung Kong Research Institute in Cheung Kong Graduate School of Business.

Madam Fan Qi (樊琦), aged 43, is an executive director of Chengdu Longhu. Madam Fan joined the Group in 1997. Madam Fan served as the General Manager of Chengdu business operations from 2005 to 2010. Madam Fan graduated from the Department of Management Engineering of the Sichuan Institute of Light Industry and Chemical Technology in 1988. Prior to joining the Group, Madam Fan had worked for the Chongqing City Jiangbei District Shimen Tax Office.

Mr. Zhao Nannan (趙男男), aged 34, is the General Manager in charge of our Shanghai business operations. Mr. Zhao joined the Group in 2001. Mr. Zhao graduated from Chongqing Jianzhu University and obtained a bachelor's degree majoring in Management Engineering in 1999. Prior to joining the Group, Mr. Zhao worked for Chongqing Residential Construction Limited.

Mr. Li Jun (李軍), aged 38, is the General Manager in charge of our Shenyang business operations. Mr. Li joined the Group in June 2006. Mr. Li graduated from Beijing University of Technology with a bachelor's degree in Engineering in 1996 majoring in civil engineering. Prior to joining the Group, Mr. Li worked for Beijing Beichen Innovation Hi-tech Development Limited, Markgold International Housing Land Consulting (Beijing) Co., Ltd. and Beichen Property Development Company.

Mr. Huang Shi Xuan (黃世軒), aged 46, was appointed as the Chief Engineer of the Group. He joined the Group in 1998 and has served as the Deputy General Manager of engineer of Chongqing Longhu and Beijing Longhu respectively. Mr. Huang graduated from the Department of Mechanical Engineering of Chongqing University in 1988. Prior to joining the Group, Mr. Huang worked for Chongqing Construction Limited.

Mr. Peng Jiang (彭江), aged 36, is the General Manager in charge of our Qingdao business operations. Mr. Peng graduated from the Tongji University in 1997 with a Bachelor's degree in Engineering and graduated from the Tsinghua University in 2001 and obtained a Master degree of Engineering. Prior to joining to Group, Mr. Peng worked for China Resources Land Beijing Limited and Taikang Real Estate Investment Co.

Mr. Yuan Chun (袁春), aged 36, is the General Manager in charge of our Hangzhou business operations. Mr. Yuan joined the Group in 2010. He graduated from the Tongji University in 1996 with a Bachelor's degree in HVAC. Prior to joining the Group, Mr. Yuan worked for China Overseas Land & Investment Ltd.

Mr. Zhang Xue Qiao (張雪樵), aged 39, is the General Manager in charge of our Chengdu business operations. Mr. Zhang joined the Group in 2007 and was the Deputy General Manager of the marketing department of Chongqing Longhu. He serves as the General Manager of our Chengdu business operations from 2011. Mr. Zhang graduated from the Department of Economics and Management of Guizhou Nationalities University majoring in Industrial Enterprise Management in 1992. Prior to joining the Group, Mr. Zhang worked for Shenzhen Skyworth Group, Chongqing Yuhai Industrial Co Ltd and Chongqing Jinke Group.

Mr. Wei Jian (魏健), aged 36, is the General Manager in charge of our Xi'an business operations. Mr. Wei joined the Group in 2008. He graduated from the Tianjin University in 2000 and obtained a Master degree in Management Science and Engineering. Prior to joining the Group, Mr. Wei worked for Procter & Gamble (Guangzhou) Ltd., Roland Berger Strategy Consultants and Tiens Group.

Company Secretary

Mr. Lo Chi Lik, Peter (羅志力), aged 59, is our Company Secretary. He qualified as a solicitor in Hong Kong in 1976 and has been in continuous practice since qualification. He is currently a partner of Messrs. Woo, Kwan, Lee & Lo. Mr. Lo is also the Company Secretary of China Resources Land Limited (stock code: 01109) (華潤置地有限公司) and China Resources Cement Holdings Limited (華潤水泥控股有限公司) (stock code: 1313) which are listed on the Stock Exchange.

Audit Committee

We have established an audit committee on November 1, 2009 in compliance with Rules 3.21 and 3.23 of the Listing Rules. The audit committee comprises three independent non-executive directors, Mr. Chan Chi On, Derek, Mr. Frederick Peter Churchouse, and Dr. Xiang Bing. Mr. Chan is the Chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and our internal control procedures and nominate and monitor external auditors.

Remuneration Committee

We have established a remuneration committee on November 1, 2009 in compliance with Appendix 14 to the Listing Rules. The remuneration committee comprises two independent non-executive directors, Dr. Xiang Bing and Mr. Chan Chi On, Derek and Mr. Fang Shengtao, who is an executive director. Mr. Fang Shengtao is the Chairman of the remuneration committee. Primary functions of the remuneration committee are to make recommendations to the Board on the remuneration of our directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for the directors and senior management and evaluate and make recommendations on employee benefit arrangements.

Management Committee

We have established a management committee consisting of our executive directors and the General Managers of the regional companies. Led by the Chief Executive Officer, the committee is responsible for discussing and approving corporate policies and key management issues of us in the areas of strategy, operation, finance and human resources.

Investment Decision Committee

We have established an investment decision committee consisting of the Chairperson and Chief Executive Officer, the Chief Financial Officer, the General Managers of the regional companies, the General Manager of the Business Development Department and the General Manager of the Customer and Corporate Branding Department of the headquarters of us. The investment decision committee reports directly to the Board and is responsible for appraising land acquisition proposals submitted by our regional companies and the business development department of our headquarters as well as making land purchase decisions. When there is conflict of interest with any member of the investment decision committee in respect of any matter to be transacted at the committee meeting, the relevant member is required to abstain from voting on such matter of the meeting.

Compensation of Directors

The aggregate amount of salaries, housing allowances, pension scheme contributions, other allowances, benefits-in-kind and bonuses received by the directors during each of the three financial years ended December 31, 2008, 2009 and 2010 were approximately RMB20.9 million, RMB44.9 million and RMB63.0 million, respectively.

During the three financial years ended December 31, 2008, 2009 and 2010:

- no remuneration was paid by us to, or receivable by, our directors as an inducement to join or upon joining us;
- no compensation was paid by us to, or receivable by, our directors or past directors for each of the last three years for the loss of office as a director or for loss of any other office in connection with the management of the affairs of any of our members; and
- none of our directors waived any emoluments.

Save as disclosed above, no other payments have been paid or are payable, in respect of the three financial years ended December 31, 2008, 2009 and 2010 by us to the directors.

We have entered into service agreements with Madam Wu, Mr. Fang Shengtao, Mr. Chen Kai and Mr. Qin Lihong for a term of 3 years commencing from November 1, 2009, which will continue thereafter unless and until terminated by either party by serving not less than 3 months written notice to the other.

In consideration of, among other things, their respective employment and compensation arrangements under their respective employment agreements, each of those individuals are bound by certain restrictive covenants, including a covenant which restricts their ability to compete with us both during their employment with us and for a period of 12 months thereafter. Madam Wu is further bound by the terms of the Non-competition Deed which was entered into on November 1, 2009.

Employees

We had a total of 5,844 employees as of December 31, 2010. The following table sets out the number of our employees categorized by function as at that date:

| <u>Department</u> | <u>No. of employees</u> |
|---|-------------------------|
| Marketing and Sales & Corporate Branding | 378 |
| Engineering | 344 |
| Cost and Procurement | 165 |
| Finance & Accounting | 132 |
| R&D and Design | 122 |
| Public Affairs and Administration | 65 |
| Investment and Business Development | 54 |
| Operation Management & IT | 49 |
| Human Resources | 35 |
| Sub-total for Property Development & Headquarters | 1,344 |
| Property Management Services | 4,421 |
| Commercial Real Estate and Related Services | 79 |
| Total | <u>5,844</u> |

All of our employees are employed under employment contracts. We review the performance of our employees twice a year, the results of which are used in his or her annual salary review and promotion appraisal.

All of our employees are considered for an annual bonus based on various performance criteria and their assessment results.

We review our staff remuneration packages semi-annually. We conduct research on remuneration packages offered to similar positions in our industry which we believe allows us to remain competitive in the labor market.

We incurred staff costs (including directors' emoluments) of approximately RMB464.0 million, RMB524.1 million and RMB627.6 million for the three financial years ended December 31, 2008, 2009 and 2010 representing 10.4%, 4.6% and 4.2% of our revenue for those periods, respectively.

We confirm that no compensation was paid by us to, or receivable by, such employees for the three financial years ended December 31, 2008, 2009 and 2010 for loss of office in connection with the management of our affairs, or as an inducement to join or upon joining us.

Employee Incentive Schemes

We have adopted the Pre-IPO Share Award Schemes, the Pre-IPO Option Scheme and the Post-IPO Option Scheme for the benefit of our employees, including our directors and senior management personnel subject to the terms and conditions respectively stated therein.

Compensation of employees

Compensation of our employees, including our sales staff, consists of basic salary and bonuses. Bonuses are determined on a yearly basis based on performance reviews and our overall financial results. At the completion of a property project, we also issue a special project completion bonus. We expect to grant share options to our senior employees pursuant to the Post-IPO Option Scheme as part of their remuneration packages.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding beneficial ownership of our ordinary shares as of December 31, 2010 by (i) our directors and (ii) those persons known by us to beneficially own 5% or more of our outstanding shares (the “Shares”).

| Name of shareholder | Capacity/ nature of interest | Number of Ordinary Shares | Interest in underlying shares | Approximate percentage of shareholding |
|---|--|---------------------------------|-------------------------------------|--|
| Directors | | | | |
| Wu Yajun | Founder of a discretionary trust (Note 1) | 2,343,736,000 | — | 45.465% |
| | Family interest (Note 2) | 1,562,394,400 | — | 30.308% |
| | Family interest (Note 6) | 100,000 | — | 0.0002% |
| Fang Shengtao | Beneficiary of a trust (Note 3) | 2,734,125 | — | 0.053% |
| | Beneficiary of a trust (Note 4) | — | 32,940,000 | 0.639% |
| | Beneficial owner | 1,777,875 | — | 0.034% |
| Chen Kai | Beneficial owner | 1,700,000 | | 0.033% |
| | Beneficiary of a trust (Note 3) | 1,700,000 | | 0.033% |
| | Beneficial owner | | 6,000,000 (Note 5) | 0.116% |
| Qin Lihong | Beneficial owner | 964,125 | | 0.018% |
| | Beneficiary of a trust (Note 3) | 2,435,875 | — | 0.047% |
| | Beneficial owner | | 3,000,000 | 0.058% |
| Frederick Peter Churchouse . . . | Beneficial owner | — | 200,000 (Note 5) | 0.004% |
| Chan Chi On, Derek | Beneficial owner | — | 200,000 (Note 5) | 0.004% |
| Xiang Bing | Beneficial owner | — | 200,000 (Note 5) | 0.004% |
| Principal Shareholders | | | | |
| Cai Kui (Note 7) | Family interest (Note 1) | 2,343,591,600 | | 45.462% |
| | Founder of a discretionary trust (Note 2) | 1,562,394,400 | | 30.308% |
| HSBC International Trustee Limited | Trustee (Note 1 and 2) | 3,905,986,000 | | 75.771% |
| Charm Talent International Limited | Registered owner (Note 1) | 2,343,591,600 | | 45.462% |
| Silver Sea Assets Limited | Interest of controlled corporation (Note 1) | 2,343,591,600 | | 45.462% |
| Junson Development International Limited (previously known as Precious Full International Limited) . . . | Registered owner (Note 2) | 1,562,394,400 | | 30.308% |
| Silverland Assets Limited | Interest of controlled corporation (Note 2) | 1,562,394,400 | | 30.308% |

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- (1) These Shares are held by Charm Talent as registered holder. The entire issued share capital of Charm Talent is wholly owned by Silver Sea, the entire issued share capital of which is in turn wholly-owned by HSBC International Trustee as the trustee of the Wu Family Trust. The Wu Family Trust is a discretionary trust set up by Madam Wu as settlor and protector and HSBC International Trustee as trustee on June 11, 2008. The beneficiary objects of the Wu Family Trust include certain family members of Madam Wu. Madam Wu as founder of the Wu Family Trust and Mr. Cai as the spouse of Madam Wu are each taken to be interested in the 2,343,591,600 Shares held by Charm Talent pursuant to Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (“SFO”). According to the latest disclosure of interests filings, Charm Talent is interested in 2,343,591,600 shares, representing 45.462% of the issued Shares as at December 31, 2010. The Company is aware that Charm Talent is interested in 2,343,736,600 Shares, representing 45.465% of the issued Shares as at December 31, 2010. No disclosure of interests form has been voluntarily filed by Charm Talent in respect of the acquisition of 145,000 Shares. Madam Wu as founder of the Wu Family Trust and Mr. Cai as the spouse of Madam Wu are each taken to be interested in these 145,000 Shares held by Charm Talent pursuant to Part XI of the SFO.
 - (2) These Shares are held by Junson Development International Limited (“Junson Development”) as registered holder. The entire issued share capital of Junson Development is wholly owned by Silverland Asset Limited (“Silverland”), the entire issued share capital of which is in turn wholly-owned by HSBC International Trustee as the trustee of the Cai Family Trust. The Cai Family Trust is a discretionary trust set up by Mr. Cai as settlor and protector and HSBC International Trustee as trustee on June 11, 2008. The beneficiary objects of the Cai Family Trust include certain family members of Mr. Cai and Fit All. Madam Wu as the spouse of Mr. Cai is taken to be interested in the 1,562,394,400 Shares held by Junson Development pursuant to Part XV of the SFO.
 - (3) Such number of Shares are held on trust by Fit All. The entire issued share capital of Fit All is wholly-owned by HSBC Trustee (HK) Limited (“HSBC (HK) Trustee”) as the trustee of the Fit All Trust. The Fit All Trust was set up on June 11, 2008 with HSBC (HK) Trustee acting as the trustee thereof. The beneficiary objects of the Fit All Trust are certain selected employees of the Group as participants of the Pre-IPO Share Award Schemes adopted by the Company.
 - (4) Such number of pre-IPO options granted pursuant to a Pre-IPO Option Scheme adopted by the Company on November 30, 2007 are currently held by Long Faith Management Limited (“Long Faith”) subject to the terms of the Long Faith Trust. The Long Faith Trust is a discretionary trust of which HSBC (HK) Trustee is the trustee and the relevant director is one of the discretionary objects.
 - (5) The relevant director was granted options to subscribe for such number of shares under the Post-IPO Option Scheme.
 - (6) These 100,000 shares are beneficially held by Mr. Cai Kui. No disclosure of interests form has been voluntarily filed by Mr. Cai Kui in respect of the acquisition of these 100,000 shares. Madam Wu is the spouse of Mr. Cai Kui and accordingly, Madam Wu is taken to be interested in these 100,000 shares held by Mr. Cai pursuant to Part XV of the SFO.
 - (7) The Company is aware that Mr. Cai Kui is beneficially interested in 100,000 Shares, representing 0.0002% of the issued Shares as at December 31, 2010. No disclosure of interests form has been voluntarily filed by Mr. Cai Kui in respect of the acquisition of these 100,000 Shares.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

The table below sets forth our related party transactions for the periods indicated.

| | Year Ended December 31, | | |
|--|-------------------------|----------------|------------------|
| | 2008 | 2009 | 2010 |
| | (RMB in thousands) | | |
| Joint controlled entities | | | |
| Amounts due from JCE ⁽¹⁾ | 107,094 | 35,271 | 7,362 |
| Amounts due to JCE ⁽²⁾ | 19,957 | 363,879 | 1,319,490 |
| Sales of properties | 6,706 | 35,564 | 1,744 |
| Consultancy fee income | 5,370 | 13,000 | 13,588 |
| Property management income | 3,226 | 4,708 | 7,013 |
| Associates | | | |
| Purchases of property, plant and equipment . . | 101 | — | — |
| Minority shareholder of a subsidiary | | | |
| Consultancy fee expense | 2,000 | — | — |
| Shareholder's loan interest | 539 | — | — |
| Key management and shareholders | | | |
| Sales of properties to key management and shareholders | — | 33,423 | 18,931 |
| Remuneration paid and payable to key management personnel who are also directors | | | |
| Basic salaries and other benefits | 9,558 | 14,370 | 10,987 |
| Bonus | 2,000 | 16,882 | 17,325 |
| Retirement benefit contribution | 102 | 304 | 286 |
| Equity-settled share-based payments | 9,242 | 13,132 | 32,434 |
| Total | <u>165,895</u> | <u>530,533</u> | <u>1,429,160</u> |

(1) The amounts due from jointly-controlled entities are unsecured, interest-free and are repayable within one year.

(2) The amounts are denominated in RMB which are unsecured, interest free and repayable on demand.

Amount due from a minority shareholder of a subsidiary as at December 31, 2008 was unsecured, interest-free and repayable based on the progress of development and sale of a property project. The amount had been fully repaid as at December 31, 2009.

On June 30, 2009, the Group issued a financial guarantee of HK\$100,000,000 to a bank in respect of loans granted to a related party, Dujiangyan Qingcheng Co., of which two directors are common to the Company and have beneficial interests. The guarantee was fully released before December 31, 2009.

Except as above disclosed, there was no related party transaction between us, our consolidated subsidiaries and our directors, executive officers and principal shareholders nor, in each case, the companies with whom they are affiliated, for the three years ended December 31, 2010.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS AND OBLIGATIONS

To fund our existing property projects and to finance our working capital requirements, we have borrowed money from various banks. As of December 31, 2010, our total consolidated bank loans, other loans and convertible bonds amounted to RMB17,324.4 million (US\$2,624.9 million). We set forth below a summary of the material terms and conditions of these loans.

PRC Bank Loans

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including Bank of China, The Agricultural Bank of China, China Construction Bank and Industrial and Commercial Bank of China.

These loans are typically secured project loans and working capital loans to finance the construction of our projects and for working capital purposes of the subsidiary borrowers, and generally have terms ranging from 24 months to 60 months, which, in the case of project loans, generally correspond to the construction periods of the particular projects. As of December 31, 2010, an aggregate principal amount of RMB14,666.7 million was outstanding under these PRC bank loans. Our project loans are typically secured by land use rights and properties as well as guaranteed by certain of our other PRC subsidiaries. The Notes, the Subsidiary Guarantees and JV Subsidiary Guarantees (if any) will be structurally subordinated to these loans and any other indebtedness incurred by our PRC Subsidiaries.

Interest

The principal amounts outstanding under the project loans generally bear interest at floating rates calculated by reference to PBOC's benchmark interest rate per annum. Floating interest rates generally are subject to review by the lending banks annually. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement.

Covenants

Under these project loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the relevant lenders' prior consent:

- create encumbrances on any part of their property or assets or deal with their assets in a way that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties that may adversely affect their ability to repay their loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations; and
- alter the nature or scope of their business operations in any material respect.

Events of Default

The project loans contain certain customary events of default, including insolvency and breaches of the terms of the loan agreements. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

Guarantee and Security

Certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks in connection with some of the project loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these project loans.

Onshore RMB Bonds

On May 5, 2009, Chongqing Longhu Development Company Limited (the “RMB bond issuer”) issued a bond of the principal amount of RMB1,400,000,000 which will be repayable in full on May 5, 2016, subject to early redemption. The bond bears fixed coupon interest rate at 6.7% per annum for the first five years payable semi-annually in arrears and is subject to an one-off upward adjustment of up to 100 basis points (inclusive) from May 5, 2014 at the election of the RMB bond issuer. On April 25, 2014, the RMB bond issue will determine the interest rate by election of an upward adjustment to the interest rate or maintain the interest rate at 6.7%, a holder of the bond then may elect to redeem all or part of the bond at the face value. A portion of such bond, RMB1,100,000,000, is listed and traded on the Shanghai Stock Exchange. The bond is secured by certain properties and our land use rights. The Company estimated the fair value of the RMB bonds at December 31, 2010 to be approximately RMB1,468.3 million. The fair value of both the listed and unlisted portions of the RMB bonds have been calculated with reference to the quoted market price of the listed portion of the RMB bonds.

Offshore Loans

2009 CCBHK Loan

On August 3, 2009, China Construction Bank Corporation, Hong Kong Branch (“CCB”) granted committed banking facilities to Joy Wealth Trading Limited, our Hong Kong subsidiary held through one of our PRC subsidiaries, in the amount of up to HK\$1,342 million (the “2009 CCBHK Loan”). As of December 31, 2010, HK\$1,020 million in principal amount was outstanding under this facility.

The 2009 CCBHK Loan will mature 15 business days prior to the expiry date of the SBLC (as defined below). We may prepay the 2009 CCBHK Loan upon 7 days’ prior written notice of prepayment to CCBHK.

Guarantee and Security

The 2009 CCBHK is backstopped by a standby letter of credit in an amount of not less than HK\$1,350 million issued by China Construction Bank Corporation, Chongqing Branch and is not supported by any guarantee or other security.

Interest

The 2009 CCBHK Loan bears interest at the rate of 3.08% per annum.

Covenant

Pursuant to the agreement for the 2009 CCBHK Loan, Joy Wealth Trading Limited may not create any encumbrance over its assets unless the benefit of such encumbrance is extended to CCBHK on a *pari passu* basis.

Events of Default

The 2009 CCBHK Loan contains certain customary events of default, including nonpayment of principal or interest, cross default, insolvency and breaches of the terms of the 2009 CCBHK Loan.

2010 Syndicated Loan

On April 26, 2010, we signed a HK\$2,150 million syndicated term loan facility agreement with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) acting as agent (the “2010 Syndicated Loan”). As of December 31, 2010, HK\$2,150 million in principal amount was outstanding under this facility.

The 2010 Syndicated Loan will mature on April 26, 2014. We may prepay the 2010 Syndicated Loan upon 30 days’ prior written notice of prepayment to HSBC.

Guarantee and Security

The 2010 Syndicated Loan is unsecured and guaranteed by our offshore subsidiaries existing at the time when we entered into the loan agreement.

Interest

The 2010 Syndicated Loan bears a fixed interest of 4.33% per annum.

Financial Covenants

Pursuant to the agreement for the 2010 Syndicated Loan, we agreed to the following financial covenants:

- Our tangible net worth will be at least RMB11,500 million;
- Our net leverage ratio will not exceed 1.0x on or prior to December 30, 2011 and 0.85x thereafter;
- Our fixed charge coverage ratio will be at least 3.5x;
- Our borrowings in the PRC will not exceed 35% of our total assets; and
- Our dividends will not exceed 35% of our net profit after tax.

Other Covenants

Pursuant to the agreement for the 2010 Syndicated Loan:

- Neither we nor any of our subsidiaries may create any encumbrance over our assets unless the benefit of such encumbrance is extended to the lenders of the 2010 Syndicated Loan on a *pari passu* basis;
- We may not dispose of any guarantor of the 2010 Syndicated Loan without consent from all lenders of the 2010 Syndicated Loan; and
- No guarantor of the 2010 Syndicated Loan may enter into any arrangements that may restrict its ability to pay dividends to its shareholders.

Events of Default

The 2010 Syndicated Loan contains certain customary events of default, including nonpayment of principal or interest, cross default, insolvency and breaches of the terms of the 2010 Syndicated Loan.

2010 BEA Bilateral Loan

On December 30, 2010, we signed a HK\$500 million term loan facility agreement with The Bank of East Asia, Limited (“BEA,” the “2010 BEA Bilateral Loan”). As of December 31, 2010, nil in principal amount was outstanding under this facility.

The 2010 BEA Bilateral Loan will mature on December 30, 2013. We may prepay the 2010 BEA Bilateral Loan upon 5 business days’ prior written notice of prepayment to BEA.

Guarantee and Security

The 2010 BEA Bilateral Loan is unsecured and is not supported by any guarantee.

Interest

The 2010 BEA Bilateral Loan bears interest at the rate of 2.8% per annum over HIBOR.

Financial Covenants

Pursuant to the agreement for the 2010 BEA Bilateral Loan, we agreed to the following financial covenants:

- Our tangible net worth will be at least RMB11,500 million;
- Our net leverage ratio will not exceed 1.0x on or prior to December 30, 2011 and 0.85x thereafter;
- Our fixed charge coverage ratio will be at least 3.5x;
- Our borrowings in the PRC will not exceed 35% of our total assets; and
- Our dividends will not exceed 35% of our net profit after tax.

Other Covenants

Pursuant to the agreement for the 2010 BEA Bilateral Loan:

- Neither we nor any of our subsidiaries may create any encumbrance over our assets unless the benefit of such encumbrance is extended to BEA on a *pari passu* basis; and
- Neither we nor any of our subsidiaries may enter into any arrangements that may restrict its ability to pay dividends to its shareholders.

Events of Default

The 2010 BEA Bilateral Loan contains certain customary events of default, including nonpayment of principal or interest, cross default, insolvency and breaches of the terms of the 2010 BEA Bilateral Loan.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to Longfor Properties Co. Ltd., and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee (as defined herein) is referred to as a “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of April 7, 2011, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at 39th Floor, ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “— The Subsidiary Guarantees and the JV Subsidiary Guarantors” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees”;
- effectively subordinated to the other secured obligations (if any) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below).

The Company will initially issue US\$750 million in aggregate principal amount of the Notes, which will mature on April 7, 2016, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Notes will bear interest at 9.5% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on April 7 and October 7 of each year (each an “Interest Payment Date”), commencing October 7, 2011. Interest on the Notes will be paid to Holders of record at the close of business on March 23 or September 22 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as described under “Optional Redemption” and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Paying Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date.

The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be an office of the Paying Agent currently located at Ground Floor, DUB-01-11, 1 North Wall Quay, Dublin 1, Republic of Ireland), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register maintained by the Note Registrar. Interest payable on the Notes held through DTC will be available to DTC participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees and the JV Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company’s Restricted Subsidiaries other than those Restricted Subsidiaries organized under the laws of the PRC (the “PRC Non-Guarantor Subsidiaries”) and Long Growth SRL. All of the Subsidiary Guarantors are holding companies that do not have significant operations.

None of the PRC Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. In addition, no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future.

The Company will use its commercially reasonable best efforts to take all necessary actions, including obtaining necessary consents or governmental approvals, to cause Long Growth SRL to become a Subsidiary Guarantor or JV Subsidiary Guarantor promptly after it commences investment for the purposes of commencing business activities, or if it has commenced business activities as of the Original Issue Date, as soon as practicable after the Original Issue Date, *provided*, in each case, that it would not be required to register as an investment company under the Investment Company Act of 1940, as amended.

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC) to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor, as soon as practicable and in any event within 30 days after such Person becomes a Restricted Subsidiary. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee (Restricted Subsidiaries other than those organized under the laws of the PRC that do not provide Subsidiary Guarantee or JV Subsidiary Guarantee in accordance with the Indenture, the “New Non-Guarantor Subsidiaries,” and together with the PRC Non-Guarantor Subsidiaries, the “Non-Guarantor Subsidiaries”) at the time such entity becomes a Restricted Subsidiary, *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 20% of the Total Assets of the Company.

Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.

In the case of a Restricted Subsidiary (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is incorporated in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% and no more than 49.9% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase no less than 50.1% of the Capital Stock of an Independent Third Party and designate such entity as a Restricted Subsidiary, the Company may, concurrently with the consummation of such sale or purchase, provide a JV Subsidiary Guarantee (as defined below) instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee (as defined below), no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized

international standing appointed by the Company, *provided, however*, that no such appraisal is required if the sale or issuance of Capital Stock is made within 180 days after land use rights are acquired by such JV Subsidiary Guarantor or any Restricted Subsidiary of such JV Subsidiary Guarantor;

- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor (the “JV Subsidiary Guarantee”) and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC, and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) an Officers’ Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iii) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantees are valid, binding and enforceable against the JV Subsidiary Guarantors providing such JV Subsidiary Guarantees (subject to customary qualifications and assumptions).

As of December 31, 2010, the Company and its consolidated subsidiaries had consolidated borrowings of approximately RMB17,324.4 million (US\$2,624.9 million), of which approximately RMB9,248.7 million (US\$1,401.3 million) was secured.

As of December 31, 2010, the Non-Guarantor Subsidiaries had total borrowing of approximately RMB11,510.1 million (US\$1,744.0 million) and the Non-Guarantor Subsidiaries had capital and operating lease commitments of approximately RMB13,807.4 million (US\$2,092.0 million) and contingent liabilities of approximately RMB4,714.8 million (US\$714.4 million).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be enforceable only up to the JV Entitlement Amount;

- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will be limited to the JV Entitlement Amount, and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and
- will be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantor is referred to as a “Future Subsidiary Guarantor” and upon execution of the applicable supplemental indenture to the Indenture will be a “Subsidiary Guarantor.”

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes; *provided* that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such payment as though such payment had not been made. All payments under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable,

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and
- each JV Subsidiary Guarantee will be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and, depending on the amount of such indebtedness, a Subsidiary Guarantor’s liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor’s liability on its JV Subsidiary Guarantee, as the case may be, could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable

laws. See “Risk Factors — Risks Relating to the Subsidiary Guarantees and the JV Subsidiary Guarantees — The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees.”

Release of the Subsidiary Guarantees and JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a

JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under “— Defeasance — Defeasance and Discharge”;
- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale, merger or disposition of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants under the captions “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Certain Covenants — Limitation on Asset Sales” and “— Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture;
- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee; or
- in the case of a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, in compliance with the terms of the Indenture.

In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with the consummation of such sale or issuance of Capital Stock, instruct the Trustee to release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC will become “New Non-Guarantor Subsidiaries” (such that each New Non-Guarantor Subsidiary will no longer Guarantee the Notes) (without any requirement to seek the consent or approval of the Holders of the Notes), *provided* that after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the New Non-Guarantor Subsidiaries) do not account for more than 20% of the Total Assets of the Company. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% and no more than 49.9% of the issued Capital Stock of the relevant Subsidiary Guarantor, *provided* that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee, (b) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee, or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale is made to an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company, *provided, however*, that no such appraisal is required if the sale or issuance of Capital Stock is made within 180 days after land use rights are acquired by such Subsidiary Guarantor or any Restricted Subsidiary of such Subsidiary Guarantor;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee and all JV Subsidiary Guarantees provided by the Restricted Subsidiaries of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
 - (iii) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including, without limitation, the "Limitation on Asset Sales" and "Limitation on Restricted Payments" covenants.

Any Net Cash Proceeds from the sale of such Capital Stock shall be applied by the Company (or any

Restricted Subsidiary) in accordance with the “Limitation on Asset Sales” covenant.

As of the date of the Indenture, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.” However, under the circumstances described below under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries,” the Company will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries will not Guarantee the Notes.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees and JV Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted the “Limitation on Indebtedness and Preferred Stock” covenant described below; *provided* further that Additional Notes that are consolidated and form a single class with the outstanding Notes must be fungible with the outstanding Notes for U.S. federal income tax purposes.

Optional Redemption

At any time and from time to time on or after April 7, 2014, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve month period beginning on April 7 of each of the years indicated below.

| Year | Redemption Price |
|---------------------|------------------|
| 2014 | 104.75% |
| 2015 and thereafter | 102.375% |

At any time prior to April 7, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption.

At any time and from time to time prior to April 7, 2014, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 109.5% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Selection and Notice

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion deems to be fair and appropriate.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's and the Subsidiary Guarantors' then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a Change of Control Triggering Event."

The phrase "all or substantially all," as used with respect to the assets of the Company in the definition of "Change of Control," will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “— Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, if applicable, the PRC (each, as applicable, a “Relevant Jurisdiction”), or the jurisdiction through which payments are made, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note, and the Relevant Jurisdiction or the jurisdiction through which payments are made, other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;

- (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person, any Subsidiary Guarantor or any JV Subsidiary Guarantor addressed to the Holder to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction or the jurisdiction through which payments are made, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction or the jurisdiction through which payments are made, unless such Note could not have been presented for payment elsewhere;
- (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (c) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction or the jurisdiction through which payments are made, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and upon reasonable notice in advance of such notice to Holders, to the Trustee and the Paying and Transfer Agent (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or

- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective (or in the case of official position, is announced) (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, in each case that is not organized or tax resident in a jurisdiction that is a Relevant Jurisdiction on the Original Issue Date, on or after the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, such Surviving Person, Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default

has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.0 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following (“Permitted Indebtedness”):
- (a) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) any *Pari Passu* Subsidiary Guarantees by any Subsidiary Guarantor or any JV Subsidiary Guarantor;
 - (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness described in clauses (a) and (b) above and clauses (d), (f), (g) and (m) below);
 - (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d) and (ii) if the Company is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, and if a Subsidiary Guarantor or a JV Subsidiary Guarantor is the obligor on such Indebtedness and the Company is not the obligee, such Indebtedness must be expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be;
 - (e) Indebtedness (“Permitted Refinancing Indebtedness”) issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (e), (h), (o), (q), (r), (s) or (t) of this paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or

instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded, (iii) in no event may Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any JV Subsidiary Guarantor (*provided* that this sub-clause (iv) shall not prohibit the replacement of a Subsidiary Guarantee by a JV Subsidiary Guarantee if otherwise permitted by the Indenture);

- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business; *provided* that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (q), (r), (s), (t) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (h) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);

- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;
- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided, however*, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (m) Guarantees by the Company or any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, subject to the “Limitation on Issuances of Guarantees by Restricted Subsidiaries” covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding does not exceed US\$50 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (o) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US\$20 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);
- (p) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement;
- (q) Indebtedness Incurred by the Company or any Restricted Subsidiary arising from any Investment made by a Trust Company Investor in a PRC Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (q) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clause (h) above and clauses (r), (s), (t) and (v) below and the refinancings

thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (q) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;

- (r) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary, if the aggregate of all Indebtedness Incurred under this clause (r) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h) and (q) above and clauses (s), (t) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (r) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
- (s) Bank Deposit Secured Indebtedness Incurred by the Company or any of its Restricted Subsidiaries, *provided* that on the date of Incurrence of such Indebtedness, the aggregate principal amount outstanding of such Indebtedness permitted by this clause (s) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q) and (r) above and clauses (t) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (s) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
- (t) Indebtedness Incurred by any Restricted Subsidiary incorporated under the laws of the PRC which is secured by Investment Properties, and Guarantees thereof by the Company or any such Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (t) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q), (r) and (s) above and clause (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (t) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets;
- (u) Indebtedness Incurred by the Company constituting a Subordinated Shareholder Loan; and
- (v) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Minority Interest Staged Acquisition Agreement; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (v) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was permitted to be Incurred under clauses (h), (q), (r), (s) and (t) above and the refinancings

thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (v) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 20% of Total Assets.

- (3) For purposes of determining compliance with this “Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (1), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.
- (4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies, *provided* that such Indebtedness was permitted to be Incurred at the time of such Incurrence.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable or paid in shares of the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”; or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date, shall exceed the sum of:

- (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on January 1, 2011 and ending on the last day of the Company's most recently ended fiscal semiannual period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus
- (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus
- (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Original Issue Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
- (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Original Issue Date, (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (C) to the extent that an Investment made after the Original Issue Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person; plus
- (v) US\$30 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, provided however that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, provided however that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);
- (5) the declaration and payment of dividends by the Company with respect to the fiscal year ended December 31, 2010 in an aggregate amount not to exceed 20% of the profit for the year of the Company as shown in the consolidated financial statements of the Company prepared in accordance with GAAP;
- (6) any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;
- (7) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing), *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US\$25 million (or the Dollar Equivalent using the Original Issue Date as the date of determination);

- (8) the purchase of Capital Stock of a Person pursuant to a Staged Acquisition Agreement or a Minority Interest Staged Acquisition Agreement;
- (9) dividends paid to, or the purchase of Capital Stock of any PRC Restricted Subsidiary held by any Trust Company Investor in respect of any Indebtedness outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(q) of the “Limitation on Indebtedness and Preferred Stock” covenant; or
- (10) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, *provided, however*, that any such cash payment shall not be for the purpose of evading the limitation of this “— Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);

provided that, in the case of clause (2), (3) or (4) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) of the preceding paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors’ determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers’ Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this “— Limitation on Restricted Payments” covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
- (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Indenture or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor or any JV Subsidiary Guarantor, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (b) existing under or by reason of applicable law, rule, regulation or order;
 - (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
 - (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
 - (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants;
 - (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under paragraph (1) or of the type described under clause (2)(h), (2)(n), (2)(o), (2)(p), (2)(q), (2)(r), (2)(s), (2)(t) or (2)(v) of the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

- (g) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee; or
- (h) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Subsidiary or its subsidiaries or the property or assets of such Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) for the issuance or sale of the Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "—Limitation on Restricted Payments" covenant if made on the date of such issuance or sale and *provided* that the Company complies with the "— Limitation on Asset Sales" covenant; or
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor or a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any Subsidiary Guarantor, unless (1) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted

Subsidiary and (2) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and other compensation for the service as board members to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption “— Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (7) of the second paragraph of the “Limitation on Restricted Payments” covenant;
- (7) loans or advances to employees, officers or directors in the ordinary course of business not to exceed US\$2.5 million in the aggregate at any one time outstanding; and
- (8) any sale of apartment units by the Company or a Restricted Subsidiary in the ordinary course of business to employees, officers, directors or their respective family members at a discount from the listed price not greater than that applicable generally to all employees of the Company and its Restricted Subsidiaries with respect to those apartment units; *provided* that (x) revenues from all such sales in any fiscal year shall not exceed 1% of the revenues for the year as shown in the consolidated financial statements of the Company for that period prepared in accordance with GAAP and (y) any such discount shall not exceed 15% of the Fair Market Value of the relevant apartment unit.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the “Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among the Company, any Wholly-Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries; *provided* that in the case of clause (iii) (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or any Restricted Subsidiary could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described above under “— Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “— Limitation on Liens,” in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under the caption “— Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;
- (3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock” after giving pro forma effect to such Asset Disposition; and
- (4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$50.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued

by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:

- (a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and
- (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion;

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or any Restricted Subsidiary) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary;
- (2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or Replacement Assets; or
- (3) make an Investment in cash or Temporary Cash Investments pending application of such Net Cash Proceeds as set forth in clause (1) or (2) above.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess Proceeds of less than US\$20.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$20.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided, however*, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made by the covenant under the caption “— Limitation on Restricted Payments.”

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated, under the caption “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) neither the Company nor any Restricted Subsidiary provides credit support for the Indebtedness of such Restricted Subsidiary, except to the extent permitted to be Incurred under paragraph (2)(r) under the caption “— Limitation on Indebtedness and Preferred Stock”; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under the caption “— Limitation on Liens”; (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “— Limitation on Restricted Payments.”

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “— Limitation on Indebtedness and Preferred Stock”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “— Limitation on Liens”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor.

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both of the Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from either of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “— Certain Covenants — Limitation on Indebtedness and Preferred Stock; ”
- (2) “— Certain Covenants — Limitation on Restricted Payments; ”
- (3) “— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries; ”
- (4) “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries; ”
- (5) “— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries; ”
- (6) “— Certain Covenants — Limitation on the Company’s Business Activities; ”
- (7) “— Certain Covenants — Limitation on Sale and Leaseback Transactions; ” and
- (8) “— Certain Covenants — Limitation on Asset Sales.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under “— Certain Covenants — Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company’s common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year, an Officers’ Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent fiscal semiannual periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company’s external auditors verifying the accuracy and correctness of the calculation and arithmetic computation, *provided* that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and (b) as soon as possible and in

any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Further, the Company, each Subsidiary Guarantor and each JV Subsidiary Guarantor have agreed that, for as long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor is neither subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, shall supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under "— Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Limitation on Asset Sales";
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary (other than a Subordinated Shareholder Loan) having an outstanding principal amount of US\$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$10.0 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company's insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for any substantial part of the property and assets of the Company or any Significant Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any Significant Subsidiary (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for all or substantially all of the property and assets of the Company or any Significant Subsidiary or (c) effects any general assignment for the benefit of creditors; or
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of the Holders of Notes waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not reasonably believe that reimbursement and/or satisfactory indemnification is assured to it.

A Holder of Notes may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security reasonably satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the written request and the offer of indemnity and/or security; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "— Provision of Financial Statements and Reports."

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture and the Notes, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption "Certain Covenants — Limitation on Indebtedness and Preferred Stock";
- (5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption "— Consolidation, Merger and Sale of Assets," shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or

another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor); and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of such Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture and the Notes, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture and the Notes, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4) of this paragraph) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this covenant and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “— Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “— The Subsidiary Guarantees — Release of the Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee (or its agent), in trust, money and/or U.S. Government Obligations or any combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity for such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;
- (2) the Company has delivered to the Trustee (a) either (i) an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters which is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance and Discharge" provision and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (ii) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (b) an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Subsidiary Guarantees and JV Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph, and clauses (3), (4), (5)(x) and (6) under the second paragraph under “— Consolidation, Merger and Sale of Assets” and all the covenants described herein under “— Certain Covenants,” other than as described under “— Certain Covenants-Government Approvals and Licenses; Compliance with Law” and “— Certain Covenants-Anti-Layering,” clause (3) under “Events of Default” with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph, and clauses (3), (4), (5)(x) and (6) under the second paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “Events of Default” with respect to such other covenants and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2)(b) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters to the effect that beneficial owners of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

Defeasance and Certain Other Events of Default

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture and the Notes;
- (2) comply with the provisions described under “— Consolidation, Merger and Sale of Assets”;
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;

- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add additional collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (7) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (8) effect any changes to the Indenture in a manner necessary to comply with the procedures of DTC;
- (9) make any other change that does not materially and adversely affect the rights of any Holder; or
- (10) conform the text of the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees.

Amendments With Consent of Holders

The Indenture may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in aggregate principal amount of the outstanding Notes may waive future compliance by the Company with any provision thereof; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;

- (8) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (9) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (10) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;
- (11) change the redemption date or the redemption price of the Notes from that stated under the captions “— Optional Redemption” or “— Redemption for Taxation Reasons”;
- (12) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees, or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Agents

Citicorp International Limited, has been appointed as Trustee under the Indenture, and Citibank, N.A., London Branch has been appointed as the note registrar (the “Note Registrar”) and the paying and transfer agent (the “Paying Agent” and together with the Trustee and Note Registrar, the “Agents”) with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture, and no implied covenant or obligation shall be read into the Indenture against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions, including normal banking and trustee relationships, with the Company and its Affiliates; *provided, however*, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, the Company will maintain at least one paying agent in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

Book-Entry; Delivery and Form

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a “Regulation S Global Note”) and will be deposited with Citibank, N.A., London Branch as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a “Restricted Global Note”; and together with the Regulation S Global Notes, the “Global Notes”) and will be deposited with Citibank, N.A., London Branch as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under “Transfer Restrictions.”

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC (“participants”) or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Restricted Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such system. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC’s applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company, nor any of the Guarantors, the Trustee, the Note Registrar nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

The Company expects that DTC will take any action permitted to be taken by Holder (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading "Transfer Restrictions."

The Company understands that: DTC is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies and certain other organizations that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, the Trustee, the Note Registrar or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depository for the Global Notes and a successor depository is not appointed by the Company within 90 days, the Company will issue Certificated Notes in registered form, which may bear the legend referred to under "Transfer

Restrictions,” in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under “Transfer Restrictions,” in accordance with the DTC’s rules and procedures in addition to those provided for under the Indenture.

The Clearing Systems

General

DTC, Euroclear and Clearstream have advised the Company as follows:

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC’s participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the Initial Purchasers. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Initial Settlement

Initial settlement for the Notes will be made in immediately available funds. All Notes issued in the form of global notes will be deposited with Citibank, N.A., London Branch, as custodian for DTC. Investors’ interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will initially hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between DTC Participants. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in same-day funds using DTC's Same Day Funds Settlement System.

Trading between Euroclear and Clearstream Participants. Secondary market trading between Euroclear participants and Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

Trading between DTC Seller and Euroclear or Clearstream Purchaser. When Notes are to be transferred from the account of a DTC participant to the account of a Euroclear participant or a Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one business day prior to settlement. Euroclear or Clearstream, as the case may be, will receive the Notes against payment. Payment will then be made to the DTC participant's account against delivery of the Notes. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. After settlement has been completed, the Notes will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream participant's account. Credit for the Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade date fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear participants or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the Notes are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream participants purchasing Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the Notes were credited to their accounts. However, interest on the Notes would accrue from the value date. Therefore, in many cases, the investment income on Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Finally, day traders that use Euroclear or Clearstream and that purchase Notes from DTC participants for credit to Euroclear participants or Clearstream participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

- (1) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear account or Clearstream account) in accordance with the clearing system's customary procedures;
- (2) borrowing the Notes in the United States from a DTC participant no later than one day prior to settlement, which would give the Notes sufficient time to be reflected in the borrower's Euroclear account or Clearstream account in order to settle the sale side of the trade; or
- (3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Euroclear participants or Clearstream participants.

Trading between Euroclear or Clearstream Seller and DTC Purchaser. Due to the time zone differences in their favor, Euroclear participants or Clearstream participants may employ their customary procedures for transactions in which Notes are to be transferred by the respective clearing system to another DTC participant. The seller must send instructions to Euroclear or Clearstream through a participant at least one business day prior to settlement. In these cases, Euroclear or Clearstream will credit the Notes to the DTC participant's account against payment. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to the Notes excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. The payment will then be reflected in the account of the Euroclear participant or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date (which would be the preceding day when settlement occurs in New York). If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As in the case with respect to sales by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date. See “— Trading between DTC Seller and Euroclear or Clearstream Purchaser” above.

None of the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor, the Trustee, the Note Registrar or any Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor, the Note Registrar, the Paying Agent or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of DTC. Any such notice shall be deemed to have been delivered on the day such notice is delivered to DTC or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint National Corporate Research, Ltd. located at 10E. 40th Street, 10th Floor, New York, New York 10016 for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Affiliate" means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, "control" (including, with correlative meanings, the terms

“controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (i) the redemption price of such Note on April 7, 2014 (such redemption price being set forth in the table appearing above under the caption “— Optional Redemption”), plus (y) all required remaining scheduled interest payments due on such Note through April 7, 2014 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale or issuance of Capital Stock of a Restricted Subsidiary or sale of Capital Stock of any other Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “— Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant under the caption “— Consolidation, Merger and Sale of Assets”;

- (7) sales or other dispositions of cash or Temporary Cash Investments, and
- (8) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts of the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange U.S. dollars or Hong Kong dollars into Renminbi or vice versa.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person or the merger or amalgamation of another Person with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;

- (2) the Permitted Holders are the beneficial owners of less than 50.1% of the total voting power of the Voting Stock of the Company;
- (3) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (4) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose nomination to the board of directors was approved by a vote of at least majority of the directors then still in office who were either directors on the Original Issue Date or whose nomination was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and a Rating Decline.

“Clearstream” means Clearstream Banking, société anonyme, Luxembourg.

“Commodity Hedging Agreement” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to protect against fluctuations in commodity prices.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to April 7, 2014 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to April 7, 2014.

“Comparable Treasury Price” means, with respect to any redemption date:

- (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated “Composite 3:30 p.m. Quotations for U.S. Government Securities”; or
- (2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income,

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees) and (7) any capitalized interest, *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
 - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available semi-annual or annual consolidated balance sheet (which may be an internal consolidated balance sheet) of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“DTC” means The Depository Trust Company and its successors.

“Entrusted Loans” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, *provided* that, such borrowings are not reflected on the consolidated balance sheet of the Company.

“Equity Offering” means (i) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a company controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; *provided* that any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) results in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“Euroclear” means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of the Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of recognized international standing appointed by the Company.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two fiscal semiannual periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Two Semiannual Period”) to (2) the aggregate Consolidated Fixed Charges during such Two Semiannual Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Two Semiannual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semiannual Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay such Indebtedness;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the two full fiscal semi-annual periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means International Financial Reporting Standards issued by the International Accounting Standards Board as in effect from time to time.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;

- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligation, pre-sale receipts in advance from customers or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business, or Entrusted Loans; *provided* that such items is not reflected on the consolidated balance sheet of the Company as borrowings or indebtedness (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings or indebtedness on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to paragraph (2)(f) under the “Limitation on Indebtedness and Preferred Stock” covenant, and (ii) equal to the net amount payable by such Person if such Hedging Obligation terminated at that time if not Incurred pursuant to such paragraph.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates, convert a fixed rate interest into a floating rate interest, convert a floating rate interest into a different floating rate interest or lower interest currently paid on Indebtedness of any Person.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

An acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of Common Stock of the Company will not be deemed an Investment.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of “Aaa,” or “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s, or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody’s or both, as the case may be.

“Investment Property” means any property that is owned and held by any Restricted Subsidiary incorporated under the laws of the PRC primarily for rental yields or for capital appreciation or both, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor and its Subsidiaries, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Guarantor and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Guarantor and its subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the direct equity ownership percentage of the Company and/or its Restricted Subsidiaries in the Capital Stock of such JV Subsidiary Guarantor and its Subsidiaries.

“JV Subsidiary Guarantee” has the meaning set forth under the caption “— The Subsidiary Guarantees.”

“JV Subsidiary Guarantor” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Moody’s” means Moody’s Investors Service, Inc. and its successors. “Net Cash Proceeds” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying and Transfer Agent and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

On one Business Day prior to the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers’ Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and upon receipt of written order of the Company signed by an Officer, the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“Officers’ Certificate” means a certificate signed by two Officers; *provided, however*, with respect to the Officers’ Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers’ Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

“Opinion of Counsel” means a written opinion from external legal counsel selected by the Company, *provided* that such counsel shall be reasonably acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Pari Passu Subsidiary Guarantee” means a guarantee by any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); *provided* that (1) the Company was permitted to Incur such Indebtedness under the covenant under the caption “— Limitation on Indebtedness and Preferred Stock” and (2) such guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption “— Repurchase of Notes upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under the caption “— Limitation on Asset Sales” or (4) any Event of Default specified in clause (4) of the definition of Events of Default.

“Permitted Businesses” means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company and its Restricted Subsidiaries on the Original Issue Date, including, without limitation, real estate acquisition, development, leasing and management, hotel acquisition, development, operation and management, and the acquisition, development, management and operation of leisure and other ancillary facilities, in each case associated with real estate projects acquired, developed or managed by the Company or any Restricted Subsidiary.

“Permitted Holders” means any or all of the following:

- (1) Yanjun Wu, the Wu Family Trust, the Cai Family Trust or other legal representative or estate of Yanjun Wu;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Persons specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary, directly or indirectly through one or more other Restricted Subsidiaries, that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged, directly or indirectly through one or more other Restricted Subsidiaries, in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged, directly or indirectly through one or more other Restricted Subsidiaries, in a Permitted Business;
- (2) any Investment in cash or Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant under the caption “— Limitation on Asset Sales.”
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “— Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;
- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;

- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;
- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries, in each case in the ordinary course of business;
- (16) advances to government authorities or government-affiliated entities in the PRC in connection with the financing of primary land development in the ordinary course of business that are recorded as assets in the Company's balance sheet;
- (17) Guarantees permitted under clause 2(r) of the covenant under “— Limitation on Indebtedness and Preferred Stock”;
- (18) any Investment by the Company or any Restricted Subsidiary in any Person (other than a Restricted Subsidiary); *provided* that:
 - (i) the aggregate of all Investments made under this clause (18) since the Original Issue Date shall not exceed in aggregate an amount equal to 20% of Total Assets. Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investment made under this clause (18) since the Original Issue Date resulting from:
 - (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),
 - (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date under this clause of an obligation of any such Person, or
 - (C) to the extent that an Investment made after the Original Issue Date under this clause (18) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person pursuant to this clause (18),
 - (ii) the Person into which such Investment is made is primarily engaged in the Permitted Businesses;
 - (iii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (18) is a Person described in clauses (x) or (y) of

the first paragraph of the covenant under the caption “— Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such shareholder or partner being an officer or director of the Company or a Restricted Subsidiary or by reason of being a Restricted Subsidiary);

- (iv) no Default has occurred and is continuing or would occur as a result of such Investment; and
- (v) in the case of any Investment by the Company or any Restricted Subsidiary in a Person of which less than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by the Company or its Restricted Subsidiaries, at the time of such Investment, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation of Indebtedness and Preferred Stock.”

For the avoidance of doubt, the value of each Investment made pursuant to this clause

(18) shall be valued at the time such Investment is made; and

(19) repurchase of the Notes.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; provided further that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;

- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations of the type described by clause (f) of the second paragraph of the covenant under the caption “—Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (e) of the second paragraph of the covenant described under the caption entitled “—Certain Covenants —Limitation on Indebtedness and Preferred Stock”; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (13) any interest or title of a lessor in the property subject to any operating lease;
- (14) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee which is permitted to be Incurred under clause (g) of the second paragraph of the covenant under the caption “— Certain Covenants —Limitation on Indebtedness and Preferred Stock”;
- (15) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (16) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant under the caption entitled “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (16) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

- (17) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (18) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (19) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens on the Capital Stock of a PRC Restricted Subsidiary granted by the Company or any PRC Restricted Subsidiary in favor of any Trust Company Investor in respect of, and to secure, the Indebtedness of the type described under paragraph (q) of the second paragraph of the “—Certain Covenants —Limitation on Indebtedness and Preferred Stock” covenant;
- (21) Liens Incurred on deposits made to secure Bank Deposit Secured Indebtedness of the type described under paragraph (s) of the second paragraph of the “—Certain Covenants —Limitation on Indebtedness and Preferred Stock” covenant;
- (22) Liens Incurred on deposits made to secure Entrusted Loans;
- (23) Liens securing Indebtedness of the type described under clause (2)(n) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (24) Liens securing Indebtedness Incurred under clause 2(r) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (25) Liens on Investment Properties securing Indebtedness of the Company or Restricted Subsidiary incorporated under the laws of the PRC of the type described under clause (2)(t) of the covenant described under the caption entitled “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (26) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(p) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (27) Liens on the Capital Stock of the Person that is to be acquired under the relevant Minority Interest Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause (2)(v) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”; and
- (28) Liens securing Indebtedness permitted to be Incurred by any PRC Restricted Subsidiary under clause (2)(o) of the covenant described under the caption entitled “— Certain Covenants— Limitation on Indebtedness and Preferred Stock.”

“Permitted Subsidiary Indebtedness” means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole; *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding Public Indebtedness and any Indebtedness of any Restricted Subsidiary permitted under clauses 2(a), (b), (d), (f), (g), (m) and (p) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 15% of the Total Assets.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“PRC” means the People’s Republic of China, excluding, solely for the purpose of this definition, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

“PRC CJV” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Pre-Registration Mortgage Guarantee” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Public Indebtedness” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“Rating Agencies” means (1) S&P and (2) Moody’s and (3) if S&P or Moody’s or both shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Moody’s or both, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or

more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by both Moody’s and S&P on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;
- (b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (c) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

“Replacement Assets” means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and is or will become, upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, a Restricted Subsidiary.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“Significant Subsidiary” means the Restricted Subsidiary that would be “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Registration is in effect on the date of this Indenture, if any of the conditions exceeds 5 percent.

“S&P” means Standard & Poor’s Ratings Services and its successors.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Senior Indebtedness” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) trade payables or (3) Indebtedness Incurred in violation of the Indenture.

“Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subordinated Shareholder Loan” means any loan to the Company or any Restricted Subsidiary from Permitted Holders which (i) is subordinated in right of payment to the Notes, (ii) by its terms (and by the terms of any security into which it is convertible or for which it is exchangeable) does not mature and is not required to be repaid, pursuant to a sinking fund obligation event of default or otherwise, in whole or in part, on or prior to the date that is one year after the Stated Maturity of the Notes and (iii) does not provide any cash payment of interest.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case

which is “controlled” and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of “Designation of Restricted and Unrestricted Subsidiaries” covenant.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, in each case maturing within one year;
- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with any banks or financial institutions organized under the laws of the PRC.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to clause (2)(h) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Trust Company Investor” means an Independent Third Party that is a financial institution or an insurance company organized under the laws of the PRC, or an Affiliate thereof, that Invests in any Capital Stock of a PRC Restricted Subsidiary.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the holder thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Cayman Islands, British Virgin Islands, PRC and United States federal income tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Cayman Islands Taxation

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest and principal on the Notes will not be subject to taxation and no withholding will be required on the payment of interest and principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands are not party to any double taxation treaties.

No stamp duty is payable in respect of the Notes provided that they are issued, executed and remain outside the Cayman Islands.

We have been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has obtained an undertaking from the Governor in Cabinet of the Cayman Islands as to tax concessions under the Tax Concessions Law (1999 Revision). In accordance with the provision of section 6 of The Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with our Company that (i) no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations; and (ii) no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable, on or in respect of the shares, debentures or other obligations of our Company, or by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision). These concessions shall be for a period of 20 years from January 8, 2008.

British Virgin Islands Taxation

There is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors or the JV Subsidiary Guarantors (if any) pursuant to the Subsidiary Guarantees or JV Subsidiary Guarantees (if any).

PRC Taxation

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations

that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Taxation on Interest and Capital Gains

Under the EIT Law and the related regulations, if we are treated as a PRC “resident enterprise,” PRC income tax at a rate of 5% (or a lower treaty rate, if any) may be required to be withheld from interest payments to investors that are “non-PRC resident enterprises” and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant interest income is not effectively connected with the establishment or place of business, to the extent such interest is derived from sources within the PRC. In addition, any gain realized on the transfer of the Notes by such investors would be subject to PRC income tax at the rate of 5% (or a lower treaty rate, if any) if such gain is regarded as income derived from sources within the PRC. We have been advised by Commerce & Finance Law Officers, our PRC legal counsel, that there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If we are treated as a PRC “resident enterprise,” the interest we pay in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, may be treated as income derived from sources within the PRC and be subject to PRC tax, which may materially and adversely affect the value of investment in the Notes. See “Risk Factors — Risk Relating to Our Business — We may be deemed a PRC resident enterprise under the EIT Law, in which case we would be subject to PRC taxation on our worldwide income and may be obligated to withhold PRC income tax on payment of interest on the Notes, and gain from the transfer of Notes may be subject to PRC tax.”

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note.

Certain U.S. Federal Income Tax Considerations

This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the Notes. This tax disclosure was written in connection with the promotion or marketing of the Notes by the Company, and it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder under the Internal Revenue Code of 1986, as amended (the “Code”). Prospective holders should seek their own advice based on their particular circumstances from independent tax advisers.

The following is a description of certain U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of Notes, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person’s decision to acquire the Notes. This discussion applies only to initial U.S. Holders that (i) purchase Notes in this offering at the “issue price,” which will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money and (ii) hold the Notes as capital assets for U.S. federal income tax purposes.

This discussion does not describe all of the tax consequences that may be relevant in light of a U.S. Holder’s particular circumstances, including alternative minimum tax consequences and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;

- dealers or traders in securities that use a mark-to-market method of tax accounting;
- persons holding Notes as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the Notes;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities; or
- persons holding Notes in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes owns Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning Notes and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the Notes.

This discussion is based on the Code, administrative pronouncements, judicial decisions, and Treasury regulations, all as of the date hereof, any of which is subject to change, possibly with retroactive effect.

As used herein, a “U.S. Holder” is a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Payments of Interest. It is expected, and therefore this discussion assumes, that the Notes will be issued without, or with no more than a *de minimis* amount of, original issue discount for U.S. federal income tax purposes. Accordingly, interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes. In addition, if contrary to the Company’s expectation the Notes’ principal amount exceeds the issue price by more than a *de minimis* amount, as determined under applicable Treasury Regulations, a U.S. Holder would be required to include in income such excess in income as original issue discount, as it accrues, in accordance with a constant yield method based on a compounding of interest before the receipt of cash payments attributable to this income. Interest income earned by a U.S. Holder with respect to a Note will constitute foreign-source income for U.S. federal income tax purposes, which may be relevant to a U.S. Holder in calculating the U.S. Holder’s foreign tax credit limitation.

As described in “Taxation — PRC Taxation,” if the Company were deemed to be a resident enterprise under PRC tax law, payments of interest in respect of the Notes might be subject to PRC withholding taxes. For U.S. federal income tax purposes, the amount of interest includible in taxable income would include any amounts withheld in respect of PRC taxes. Subject to applicable limitations, PRC income taxes, if any, withheld from payments in respect of the Notes would be creditable against the U.S. Holder’s U.S. federal income tax liability. The rules governing foreign

tax credits are complex, and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes in their particular circumstances. Instead of claiming a credit, a U.S. Holder may, at the U.S. Holder's election, deduct such PRC taxes, if any, in computing taxable income. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

Sale, Retirement or Other Taxable Disposition of the Notes. Upon the sale, retirement or other taxable disposition of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, retirement or taxable disposition and the U.S. Holder's tax basis in the Note. For these purposes, the amount realized does not include any amount attributable to accrued interest. Amounts attributable to accrued interest are treated as interest as described under "— Payments of Interest" above.

Gain or loss realized on the sale, retirement or other taxable disposition of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of the sale, retirement or taxable disposition the U.S. Holder has held the Note for more than one year. Long-term capital gains recognized by non-corporate U.S. Holders will be subject to reduced tax rates. The deductibility of capital losses may be subject to limitations. Subject to the provisions of any applicable income tax treaty, any gain or loss will generally be U.S.-source income for purposes of computing a U.S. Holder's foreign tax credit limitation.

As described in "Taxation — PRC Taxation," if the Company were deemed to be a resident enterprise under PRC tax law, gains from dispositions of Notes may be subject to PRC income taxes. In that case, a U.S. Holder's amount realized would include the gross amount of the proceeds of the sale or disposition. U.S. Holders should consult their tax advisers regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and the creditability of any PRC tax on disposition gains in their particular circumstances if they are so eligible.

Information Reporting and Backup Withholding. Payments of interest and proceeds from the sale of a Note that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated March 31, 2011 (the “Purchase Agreement”), Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, Morgan Stanley & Co. International plc and Standard Chartered Bank (together the “Initial Purchasers”), have agreed to purchase from us, and we have agreed to sell to the Initial Purchasers, the following aggregate principal amount of the Notes.

| Name | Principal Amount |
|---|------------------------|
| Citigroup Global Markets Inc. | US\$150,000,000 |
| The Hongkong and Shanghai Banking Corporation Limited | US\$200,000,000 |
| Morgan Stanley & Co. International plc | US\$200,000,000 |
| Standard Chartered Bank | US\$200,000,000 |
| TOTAL | US\$750,000,000 |

The Purchase Agreement provides that the obligation of the Initial Purchasers to pay for and accept delivery of the Notes is several and is subject to the approval of certain legal matters by their counsel and certain other conditions. The Initial Purchasers are committed to take and pay for all of the Notes if any are taken. After the initial offering, the offering price and other selling terms may be varied from time to time by the Initial Purchasers.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchasers may be required to make in respect thereof.

The Notes are a new issue of securities with no established trading market. Approval in-principle has been received for the listing of the Notes on the SGX-ST.

We have been advised by the Initial Purchasers that, in connection with the offering of the Notes, Morgan Stanley & Co. International plc, as stabilization agent may, on behalf of the Initial Purchasers, engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Initial Purchasers may over-allot the offering, creating a syndicate short position. In addition, the Initial Purchasers may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. Any of these activities may stabilize or maintain the market price of the Notes above independent market levels. The Initial Purchasers are not required to engage in these activities, and may end any of these activities at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes. These transactions may be effected in the over-the-counter market or otherwise.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States except (1) to qualified institutional buyers in reliance on Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

Until 40 days after the commencement of this offering, an offer or sales of the Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirement of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act or pursuant to another exemption from registration under the U.S. Securities Act.

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be on or about the fourth business day following the pricing date of the Notes (this settlement cycle being referred to as “T+4”). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market

generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing will be required, by virtue of the fact that the Notes initially will settle in T+4, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or succeeding business days should consult their own legal advisor.

United Kingdom

Each of the Initial Purchasers has represented and agreed that (A) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (B) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to it.

Singapore

The Initial Purchasers have acknowledged that this offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”). Accordingly, each of the Initial Purchasers represented that this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor pursuant to Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased in reliance of an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

- (a) an institutional investor (as defined in Section 4A of the SFA);
- (b) a relevant person (as defined in Section 275(2) of the SFA); or
- (c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor (under Section 274 of the SFA), or to a relevant person (as defined in Section 275(2) of the SFA) and in accordance with the conditions specified in Section 275 of the SFA;
- (ii) (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;
- (iii) where no consideration is or will be given for the transfer;
- (iv) where the transfer is by operation of law; or
- (v) as specified in Section 276(7) of the SFA.

Hong Kong

Each of the Initial Purchasers has represented and agreed that (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) and any rules made thereunder; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (2) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made thereunder.

Japan

Each of the Initial Purchasers has represented, warranted and undertaken that the Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the “Financial Instruments and Exchange Law”) and that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other applicable laws and regulations of Japan.

Italy

Each of the Initial Purchasers has represented and agreed that: (i) it shall not make any solicitation in connection with any offering of Notes in Italy; (ii) no copies of this offering memorandum or any other documents relating to the Notes will be distributed in Italy; and (iii) no Notes may be offered, sold or delivered in Italy.

Cayman Islands

Each of the Initial Purchasers has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Cayman Islands.

General

No action is being taken or is contemplated by us that would permit a public offering of the Notes or possession or distribution of any preliminary offering memorandum or offering memorandum or any amendment thereof, any supplement thereto or any other offering material relating to the Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

We have been advised that the Initial Purchasers presently intend to make a market in the Notes, as permitted by applicable laws and regulations. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any such market making may be discontinued at any time without prior notice at the sole discretion of the Initial Purchasers. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes.

The Initial Purchasers and its affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory and investment banking services, for us and our affiliates in the ordinary course of business. We may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only to (1) “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) (“QIBs”) in compliance with Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

1. represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is: (i) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (ii) a purchaser that is outside the United States;
2. acknowledge that the Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except as set forth below;
3. agree that if it is a purchaser other than a purchaser outside the United States and if it should resell or otherwise transfer the Notes within the time period referred to in Rule 144(d) under the Securities Act with respect to such transfer, it will do so only: (a) if such purchaser is an initial investor, (i) to the Company or any subsidiary thereof; (ii) inside the United States to a QIB in compliance with Rule 144A; (iii) outside the United States in an offshore transaction in compliance with Rule 904 under the Securities Act; (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available); or (b) if such purchaser is a subsequent investor of an interest in the Restricted Global Note, as set forth in (a) above and, in addition, pursuant to any available exemption from the registration requirements under the Securities Act (provided that as a condition to the registration of transfer of any Notes otherwise than as described in (a)(i), (a)(ii) or (a)(iii) above or (c) below, the Company, the Subsidiary Guarantors, the Trustee or the Paying Agent may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption); or (c) pursuant to an effective registration statement under the Securities Act;
4. agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;
5. understand that if it is a purchaser outside the United States, the Notes will be represented by the Regulation S Global Note and that transfers thereto are restricted as described under “Description of the Notes — Book-Entry; Delivery and Form.” If it is a QIB, it understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who is not a QIB, the transferee will be required to provide the Trustee with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restriction referred to above;

6. understand that each Note sold within the United States will bear a legend to the following effect unless otherwise agreed by the Company and the holder thereof (unless such Note has been sold pursuant to a registration statement that has been declared effective under the Securities Act):

“THIS NOTE, THE SUBSIDIARY GUARANTEES AND THE JV SUBSIDIARY GUARANTEES (IF ANY) RELATED TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND ACCORDINGLY, THIS NOTE MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATIONS UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(d) UNDER THE SECURITIES ACT AS IN EFFECT WITH RESPECT TO SUCH TRANSFER, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) IF SUCH PURCHASER IS AN INITIAL INVESTOR, (I) TO LONGFOR PROPERTIES CO. LTD. (“THE COMPANY”) OR ANY SUBSIDIARY THEREOF; (II) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT; (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT; (IV) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); OR (B) IF SUCH PURCHASER IS A SUBSEQUENT INVESTOR OF AN INTEREST IN THE RESTRICTED GLOBAL NOTE, AS SET FORTH IN (A) ABOVE AND, IN ADDITION, PURSUANT TO ANY AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT (PROVIDED THAT AS A CONDITION TO THE REGISTRATION OF TRANSFER OF ANY NOTES OTHERWISE THAN AS DESCRIBED IN (A)(I), (A)(II) OR (A)(III) ABOVE OR (C) BELOW, THE COMPANY, THE SUBSIDIARY GUARANTORS, THE JV SUBSIDIARY GUARANTORS (IF ANY), THE TRUSTEE OR THE PAYING AGENT MAY, IN CIRCUMSTANCES THAT ANY OF THEM DEEMS APPROPRIATE, REQUIRE EVIDENCE AS TO COMPLIANCE WITH ANY SUCH EXEMPTION); OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO THE TRUSTEE. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION” AND “UNITED STATES” HAVE THE MEANINGS GIVEN TO THEM BY REGULATIONS UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE AND THE PAYING AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS.”; and

7. acknowledge that the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Paying Agent, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Paying Agent and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

RATINGS

The Notes have been provisionally rated “BB” by Standard & Poor’s Ratings Services and “Ba3” by Moody’s Investors Service. The ratings reflect the rating agencies’ assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned a long-term corporate credit rating of BB+ with a stable outlook by Standard & Poor’s Ratings Services and a corporate family rating of Ba2 with a stable outlook by Moody’s Investors Service. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Davis Polk & Wardwell as to matters of United States federal, New York law and Hong Kong law, Commerce & Finance Law Offices as to matters of PRC law, Conyers Dill & Pearman as to matters of Cayman Islands law and British Virgin Islands law. Certain legal matters will be passed upon for the Initial Purchasers by Sidley Austin as to matters of United States federal and New York law and Zhong Lun Law Firm as to matters of PRC law.

INDEPENDENT ACCOUNTANTS

Our consolidated financial statements as of and for the years ended December 31, 2008, 2009 and 2010 included in this offering memorandum have been audited by Deloitte Touche Tohmatsu, certified public accountants, as stated in their reports included herein.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture and the issue of the Notes have been authorized by a resolution of our board of directors dated March 21, 2011.

Documents Available

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the Paying Agent.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the past two fiscal years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the Paying Agent.

Clearing Systems and Settlement

The Notes have been accepted for clearance through the facilities of DTC and Euroclear and Clearstream as participants in DTC. Certain trading information with respect to the Notes is set forth below:

| | <u>CUSIP</u> | <u>ISIN</u> | <u>Common Code</u> |
|------------------------------|--------------|--------------|--------------------|
| Rule 144A Notes | 54303RAA9 | US54303RAA95 | 060919208 |
| Regulation S Notes | G5635PAA7 | USG5635PAA78 | 060919216 |

Only Notes evidenced by either a Restricted Global Note or a Regulation S Global Note have been accepted for clearance through DTC, Euroclear and Clearstream.

LISTING OF THE NOTES

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering memorandum. Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any). The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

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REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LONGFOR PROPERTIES CO. LTD.
龍湖地產有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Longfor Properties Co. Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages F-4 to F-58, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal controls as the directors determine are necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 21, 2011

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | NOTES | 2010 | 2009 |
|--|-------|--------------------|--------------------|
| | | RMB'000 | RMB'000 |
| Revenue | 5 | 15,093,122 | 11,373,962 |
| Cost of sales | | <u>(9,995,934)</u> | <u>(8,042,326)</u> |
| Gross profit | | 5,097,188 | 3,331,636 |
| Other income | 6 | 91,531 | 421,188 |
| Other gains and losses | 7 | 34,652 | 13,990 |
| Fair value gain upon transfer to investment properties | | 777,023 | — |
| Change in fair value of investment properties . . | | 1,713,090 | 920,945 |
| Selling and marketing expenses | | (327,880) | (314,119) |
| Administrative expenses | | (433,488) | (421,099) |
| Finance costs | 8 | (66,677) | (27,499) |
| Share of results of jointly controlled entities . . | | <u>183,035</u> | <u>135,998</u> |
| Profit before taxation | | 7,068,474 | 4,061,040 |
| Income tax expense | 9 | <u>(2,051,101)</u> | <u>(1,568,581)</u> |
| Profit for the year and total comprehensive income for the year | 10 | <u>5,017,373</u> | <u>2,492,459</u> |
| Profit attributable to: | | | |
| Owners of the Company | | 4,130,155 | 2,209,207 |
| Non-controlling interests | | <u>887,218</u> | <u>283,252</u> |
| | | <u>5,017,373</u> | <u>2,492,459</u> |
| Earnings per share, in RMB cents | | | |
| Basic | 13 | <u>80.2</u> | <u>53.5</u> |
| Diluted | 13 | <u>79.8</u> | <u>53.2</u> |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2010**

| | NOTES | 2010 | 2009 |
|---|-------|-------------------|-------------------|
| | | RMB'000 | RMB'000 |
| NON-CURRENT ASSETS | | | |
| Investment properties | 14 | 8,041,000 | 4,698,300 |
| Property, plant and equipment | 15 | 171,741 | 171,861 |
| Prepaid lease payments | 16 | 7,882,002 | 3,194,207 |
| Interests in associates | 17 | 1 | 1 |
| Interests in jointly controlled entities | 18 | 2,464,099 | 2,373,834 |
| Available-for-sale investments | 19 | 8,600 | 8,600 |
| Deposits paid for acquisition of land use rights . | | 4,274,216 | 3,264,561 |
| Deposits paid for acquisition of additional interest in a subsidiary | | — | 34,000 |
| Deferred taxation assets | 30 | 436,035 | 227,702 |
| | | <u>23,277,694</u> | <u>13,973,066</u> |
| CURRENT ASSETS | | | |
| Inventories | 20 | 415,939 | 301,048 |
| Properties under development for sales | 21 | 31,590,625 | 18,312,478 |
| Properties held for sales | 22 | 3,004,066 | 1,008,296 |
| Accounts and other receivables, deposits and prepayments | 23 | 2,516,293 | 1,382,897 |
| Amounts due from jointly controlled entities . . . | 24 | 7,362 | 35,271 |
| Taxation recoverable | | 539,034 | 134,265 |
| Pledged bank deposits | 25 | 499,419 | 496,208 |
| Bank balances and cash | 25 | 9,863,132 | 6,801,573 |
| | | <u>48,435,870</u> | <u>28,472,036</u> |
| CURRENT LIABILITIES | | | |
| Accounts payable, deposits received and accrued charges | 26 | 31,474,867 | 16,362,320 |
| Amounts due to jointly controlled entities | 27 | 1,319,490 | 363,879 |
| Taxation payable | | 2,635,182 | 1,616,029 |
| Bank and other borrowings - due within one year | 28 | 2,859,870 | 3,710,200 |
| | | <u>38,289,409</u> | <u>22,052,428</u> |
| NET CURRENT ASSETS | | <u>10,146,461</u> | <u>6,419,608</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>33,424,155</u> | <u>20,392,674</u> |

| | NOTES | 2010 | 2009 |
|--|-------|-------------------|-------------------|
| | | RMB'000 | RMB'000 |
| CAPITAL AND RESERVES | | | |
| Share capital | 29 | 453,410 | 452,972 |
| Reserves | | <u>15,526,846</u> | <u>11,685,706</u> |
| Equity attributable to owners of the Company . . | | 15,980,256 | 12,138,678 |
| Non-controlling interests | | <u>1,385,564</u> | <u>1,099,884</u> |
| TOTAL EQUITY | | <u>17,365,820</u> | <u>13,238,562</u> |
| NON-CURRENT LIABILITIES | | | |
| Bank and other borrowings - due after one year. | 28 | 14,464,489 | 6,055,305 |
| Deferred taxation liabilities | 30 | <u>1,593,846</u> | <u>1,098,807</u> |
| | | 16,058,335 | 7,154,112 |
| | | <u>33,424,155</u> | <u>20,392,674</u> |

The consolidated financial statements on pages F-4 to F-58 were approved and authorised for issue by the Board of Directors on March 21, 2011 and are signed on its behalf by:

DIRECTOR

DIRECTOR

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---------------------------------------|---------------|-----------------|-----------------|---------------|---------------------------|------------------|----------------------|------------------------------|-------------------|---------------------------------------|---------------------------|------------|
| | Share capital | Share premium | Capital reserve | Special reserve | Other reserve | Statutory surplus reserve | Exchange reserve | Share option reserve | Capital contribution reserve | Retained earnings | Attributable to owners of the Company | Non-controlling interests | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At January 1, 2009 | 351,668 | — | (349,328) | 620,672 | — | 131,313 | (1,654) | 13,513 | 51,669 | 2,304,708 | 3,122,561 | 821,673 | 3,944,234 |
| Profit and total comprehensive income for the year | — | — | — | — | — | — | — | — | — | 2,209,207 | 2,209,207 | 283,252 | 2,492,459 |
| Capital injection from non-controlling interests | — | — | — | — | — | — | — | — | — | — | — | 35,000 | 35,000 |
| Recognition of equity-settled share-based payments | — | — | — | — | — | — | — | 13,371 | 39,861 | — | 53,232 | — | 53,232 |
| Dividend paid to non-controlling interests | — | — | — | — | — | — | — | — | — | — | — | (9,541) | (9,541) |
| Acquisition of additional interest in a subsidiary | — | — | — | — | — | — | — | — | — | — | — | (30,500) | (30,500) |
| Dividend recognised as distribution | — | — | (88,120) | — | — | — | — | — | — | — | (88,120) | — | (88,120) |
| Issue of ordinary shares pursuant to initial public offering of the Company | 101,304 | 7,060,854 | — | — | — | — | — | — | — | — | 7,162,158 | — | 7,162,158 |
| Transaction costs attributable to issue of new ordinary shares | — | (320,360) | — | — | — | — | — | — | — | — | (320,360) | — | (320,360) |
| Appropriations to reserve | — | — | — | — | — | 124,212 | — | — | — | (124,212) | — | — | — |
| At December 31, 2009 | 452,972 | 6,740,494 | (437,448) | 620,672 | — | 255,525 | (1,654) | 26,884 | 91,530 | 4,389,703 | 12,138,678 | 1,099,884 | 13,238,562 |

Attributable to owners of the Company

| | Share capital | Share premium | Capital reserve | Special reserve | Other reserve | Statutory surplus reserve | Exchange reserve | Share option reserve | Capital contribution reserve | Attributable to owners of the Company | | |
|---|---------------|---------------|-----------------|-----------------|---------------|---------------------------|------------------|----------------------|------------------------------|---------------------------------------|---------------------------|------------|
| | | | | | | | | | | Retained earnings | Non-controlling interests | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Profit and total comprehensive income for the year | — | — | — | — | — | — | — | — | — | 4,130,155 | 887,218 | 5,017,373 |
| Recognition of equity-settled share-based payments | — | — | — | — | — | — | — | 32,610 | 62,157 | — | 94,767 | 94,767 |
| Dividend paid to non-controlling interests | — | — | — | — | — | — | — | — | — | — | (24,425) | (24,425) |
| Acquisition of additional interests in subsidiaries | — | — | — | — | (71,717) | — | — | — | — | — | (71,717) | (577,113) |
| Dividend recognised as distribution | — | (324,450) | — | — | — | — | — | — | — | — | (324,450) | (324,450) |
| Issue of shares on exercise of share options | 438 | 16,860 | — | — | — | — | — | (4,475) | — | — | 12,823 | 12,823 |
| Appropriations to reserve | — | — | — | — | — | 77,583 | — | — | — | (77,583) | — | — |
| At December 31, 2010 | 453,410 | 6,432,904 | (437,448) | 620,672 | (71,717) | 333,108 | (1,654) | 55,019 | 153,687 | 8,442,275 | 15,980,256 | 1,385,564 |
| | | | | | | | | | | | | 17,365,820 |

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>2010</u> | <u>2009</u> |
|--|--------------------|------------------|
| | RMB'000 | RMB'000 |
| OPERATING ACTIVITIES | | |
| Profit before taxation | 7,068,474 | 4,061,040 |
| Adjustments for: | | |
| Finance costs | 66,677 | 27,499 |
| Bad debt recovery | — | (16,000) |
| Reversal of impairment loss on other receivables | — | (5,000) |
| Depreciation of property, plant and equipment | 24,019 | 21,863 |
| Fair value gain upon transfer to investment properties | (777,023) | — |
| Increase in fair value of investment properties | (1,713,090) | (920,945) |
| Share of results of jointly controlled entities | (183,035) | (135,998) |
| Gain on disposal of property, plant and equipment | (434) | (33) |
| Excess compensation received from primary development project | — | (306,000) |
| Loss on disposal of a subsidiary | — | 10,533 |
| Interest income | (60,092) | (47,620) |
| Dividend income from available-for-sale investments, unlisted . | (1,098) | (685) |
| Share-based payments expenses | <u>94,767</u> | <u>53,232</u> |
| Operating cash flows before movements in working capital | 4,519,165 | 2,741,886 |
| Increase in inventories | (114,891) | (162,396) |
| (Increase) decrease in properties under development and properties held for sales | (8,688,150) | 958,187 |
| (Increase) decrease in accounts and other receivables, deposits and prepayments | (1,133,396) | 365,193 |
| Decrease in amounts due from jointly controlled entities | 27,909 | 71,823 |
| Increase in accounts payable, deposits received and accrued charges | <u>15,017,216</u> | <u>2,271,485</u> |
| Cash from operations | 9,627,853 | 6,246,178 |
| PRC income tax paid | <u>(1,150,011)</u> | <u>(400,386)</u> |
| NET CASH FROM OPERATING ACTIVITIES | <u>8,477,842</u> | <u>5,845,792</u> |

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|--------------------|
| | RMB'000 | RMB'000 |
| INVESTING ACTIVITIES | | |
| Additions to prepaid lease payments | (8,311,383) | (1,411,125) |
| Additions to investment properties | (458,709) | (23,745) |
| Deposits paid for acquisition of land use rights | (3,447,858) | (3,212,781) |
| Acquisition of assets and assumption of liabilities through | | |
| acquisition of subsidiaries/settlement of consideration payable . . . | — | (507,250) |
| Acquisition of additional interest in jointly controlled entities . . . | — | (537,796) |
| Acquisition of a jointly controlled entity | — | (1,037,018) |
| Capital injection to a jointly controlled entity | (4) | — |
| Dividend received from a jointly controlled entity | 92,774 | 40,263 |
| Placement of pledged bank deposits | (102,514) | (369,776) |
| Withdrawal of pledged bank deposits | 99,303 | 478,947 |
| Purchase of property, plant and equipment | (26,805) | (13,644) |
| Interest received | 60,092 | 47,620 |
| Net cash inflow on disposal of subsidiaries | — | 56,691 |
| Proceeds from disposal of property, plant and equipment | 3,340 | 4,559 |
| Proceeds from disposal of investment properties | — | 5,490 |
| Compensation received from primary development project | — | 1,100,000 |
| Dividend received from available-for-sale investments | 1,098 | 685 |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(12,090,666)</u> | <u>(5,378,880)</u> |

| | NOTE | 2010 | 2009 |
|--|------|------------------|------------------|
| | | RMB'000 | RMB'000 |
| FINANCING ACTIVITIES | | | |
| Acquisition of additional interest in subsidiaries/settlement of consideration | 31 | (644,830) | (55,500) |
| Deposits paid for acquisition of additional interest in subsidiaries | | — | (34,000) |
| Repayment of bank and other loans | | (5,031,392) | (9,250,051) |
| Interest paid | | (857,401) | (590,595) |
| New bank and other loans raised | | 12,588,447 | 4,609,610 |
| Proceeds from issuance of a bond | | — | 1,384,931 |
| Capital injected from non-controlling interests | | — | 35,000 |
| Advances from jointly controlled entities | | 955,611 | 343,922 |
| Repayments to directors | | — | (81,590) |
| Net proceeds from issue of shares | | 12,823 | 7,162,158 |
| Share issue expenses | | — | (320,360) |
| Dividend paid to non-controlling interests | | (24,425) | (9,541) |
| Dividend paid | | (324,450) | (88,120) |
| NET CASH FROM FINANCING ACTIVITIES | | <u>6,674,383</u> | <u>3,105,864</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 3,061,559 | 3,572,776 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | <u>6,801,573</u> | <u>3,228,797</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | | <u>9,863,132</u> | <u>6,801,573</u> |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances and cash | | <u>9,863,132</u> | <u>6,801,573</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

1. GENERAL INFORMATION

The Company was incorporated on December 21, 2007 as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “SEHK”). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The addresses of the principal place of business of the Company in the People’s Republic of China (the “PRC”) and Hong Kong are 7/F, Tower 2, FuSheng Building, No. 4 Huixin East Street, Chaoyang District, Beijing, and 15/F, 1 Duddell Street, Central, Hong Kong, respectively.

The ultimate controlling party of the Company is the Wu Family Trust and the Cai Family Trust. The principal place of business of the trustee of Wu Family Trust and Cai Family Trust is Level 13, 1 Queen’s Road Central Hong Kong.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 41.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the functional currency of the Company and its major subsidiaries.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has applied all the standards, amendments and interpretations (“new and revised IFRSs”) issued by the International Accounting Standards Board, which are mandatorily effective for the Group’s financial year beginning January 1, 2010.

IAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The application of IAS 27 (Revised 2008) has resulted in changes in the Group’s accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in the International Financial Reporting Standards (“IFRSs”), for acquisition of additional interests in subsidiaries which are not business, the difference between the consideration and the carrying values of the underlying assets and liabilities attributable to the additional interests acquired is added to or deducted from the carrying values of the relevant assets, where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under IAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments. In respect of the acquisition of additional interests in certain subsidiaries during the period, the impact of the change in policy has been that the difference of RMB71,718,000 between the consideration paid and payable and the decrease in the carrying amount of the non-controlling interests has been recognised directly in equity (“other reserve”). Had the previous accounting policy been applied, this amount would have been recognised as part of the carrying values of the relevant assets.

The adoption of other new and revised IFRSs had no material effect on the amounts reported in these consolidated financial statements of the Group for the current or prior accounting periods and/or the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new or revised standards, amendments and interpretation that have been issued but are not yet effective.

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| IFRSs (Amendments) | Improvements to IFRSs 2010 ¹ |
| IFRS 7 (Amendments) | Disclosures - Transfers of Financial Assets ³ |
| IFRS 9 | Financial Instruments ⁴ |
| IAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets ⁵ |
| IAS 24 (Revised) | Related Party Disclosures ⁶ |
| IAS 32 (Amendments) | Classification of Rights Issues ⁷ |
| IFRIC 14 (Amendments) | Prepayments of a Minimum Funding Requirement ⁶ |

- ¹ Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate
- ² Effective for annual periods beginning on or after July 1, 2010
- ³ Effective for annual periods beginning on or after July 1, 2011
- ⁴ Effective for annual periods beginning on or after January 1, 2013
- ⁵ Effective for annual periods beginning on or after January 1, 2012
- ⁶ Effective for annual periods beginning on or after January 1, 2011
- ⁷ Effective for annual periods beginning on or after February 1, 2010

IFRS 9 *Financial Instruments (as issued in November 2009)* introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments (as revised in October 2010)* adds requirements for financial liabilities and for derecognition.

Under IFRS 9, all recognised financial assets that are within the scope of *IAS 39 Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the financial year ending December 31, 2013 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

The amendments to IAS 12 titled *Deferred Tax: Recovery of Underlying Assets* mainly deal with the measurement of deferred taxation for investment properties that are measured using the fair value model in accordance with IAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred taxation liabilities and deferred taxation assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances.

The directors anticipate that the application of the amendments to IAS 12 may have a significant impact on deferred taxation recognised for investment properties that are measured using the fair value model.

The directors anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for the investment properties which are measured at fair value.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests.

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries on or after January 1, 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to January 1, 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

On acquisition of additional interests in subsidiaries which are regarded as acquisition of additional interests in assets and liabilities as the subsidiaries are not business, the difference between the consideration and the carrying values of the underlying assets and liabilities attributable to the additional interests acquired is added to or deducted from the carrying values of the relevant assets, where appropriate.

Business combinations

Business combinations that took place prior to January 1, 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are satisfied:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and installments received from purchasers prior to meeting the above criteria of revenue recognition are included in the consolidated statement of financial position under current liabilities.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Property management and related service fees are recognised in the period in which the services are rendered.

Consultancy fee income is recognised when the services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Property under construction or development for future use as an investment property is classified as investment property under development. If the fair value cannot be reliably determined, the investment property under development will be measured at cost until such time as fair value can be determined or development is completed, in which time any difference between the fair value and the carrying amount will be recognised in profit or loss in that period.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Properties under development for sales and properties held for sales are transferred to investment properties under construction and completed investment properties when it is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount shall be recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and any accumulated impairment loss.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into account of their estimated residual values, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component which is classified as a prepaid lease payment and released over a straight-line basis over the lease term. During the construction period, the release of the leasehold land is included as part of the costs of the properties under development. Properties under development not for sale are carried at cost, less any identified impairment losses. Properties under development which are intended to be held for own use or their investment potential are shown as non-current assets.

Prepaid lease payments

The prepaid lease payments represent upfront payments for land use rights and are initially recognised at cost and released to profit or loss over the lease term on a straight-line basis, except for those that are classified and accounted for as properties under development intended to be held for sale.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investments in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a jointly controlled entity of the Group, profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Properties under development for sales

Properties under development which are intended to be sold upon completion of development are classified as current assets, and carried at the lower of cost and net realisable value. Cost include the related land cost, development expenditure incurred and where appropriate, borrowing costs capitalised.

Properties under development for sales are transferred to properties held for sales upon completion.

Properties held for sales

Properties held for sales are stated at the lower of cost and net realisable value. Cost includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalised. Net realised value is determined based on prevailing market conditions.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition or issue of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables or available-for-sale financial assets.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts and other receivables and deposits, amounts due from jointly controlled entities, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as accounts receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an account and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees, points paid and received that form an integral part of the effective rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities (including accounts payable, amounts due to jointly controlled entities and bank and other borrowings) are subsequently measured at amortised cost using effective interest method.

Equity instruments

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is released over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in the period in which they arise.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred taxation liabilities are generally recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred taxation assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred taxation assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxation assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred taxation liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred taxation is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred taxation is also recognised in other comprehensive income or directly in equity respectively.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme which is defined contribution are charged as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options/share awards to employees

The fair value of services received determined by reference to the fair value of share options or shares granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity.

At the end of the reporting period, the Group revises its estimates of the number of options or shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, a correspondence adjustment to reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

For any modification to the terms and conditions of share options granted, the incremental fair value granted is determined at the difference between the fair value of the modified share options and that of the original share options, both estimated as at the date of the modification.

If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified share options vest, in addition to the amount based on the grant date fair value of the original share options, which is recognised over the remainder of the original vesting period.

If the modification occurs after vesting date, the incremental fair value granted is recognised in profit or loss immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Investment properties

Investment properties are stated at fair values based on the valuation performed by independent professional valuers. In determining the fair values, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in profit or loss.

Income tax expense

Deferred taxation assets of RMB436,035,000 (2009: RMB227,702,000) mainly in relation to tax losses, land appreciation tax provisions, allowance for doubtful debts, government grants, unrealised profit on intra-group purchases and others have been recognised at December 31, 2010, after offsetting certain deferred taxation liabilities as set out in note 30. The realisability of the deferred taxation assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. The directors of the Company determine the deferred taxation assets based on the enacted or substantially enacted tax rates and the best knowledge of profit projections of the Group for coming years during which the deferred taxation assets are expected to be utilised. The directors of the Company will review the assumptions and profit projections by the end of the reporting period. In cases where the actual future profits generated are more or less than expected, an additional recognition or a reversal of deferred taxation assets may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes place.

Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain projects of the Group have not finalised their land appreciation tax calculations and payments with any local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of land appreciation and its related income tax provisions. The Group recognised the land appreciation tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and the related income tax provisions in the periods in which such tax is finalised with local tax authorities.

5. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the board of directors of the Company) in order to allocate resources to the segment and to assess its performance.

The Group is organised into business units based on their types of activities, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance. The Group's operating segments under IFRS 8 *Operating Segments* are identified as three main operations:

- Property development: this segment develops and sells office premises, commercial and residential properties. All the Group's activities in this regard are carried out in the PRC.
- Property investment: this segment leases investment properties, which are developed by the Group to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently the Group's investment property portfolio is located entirely in the PRC.
- Property management and related services: this segment mainly represented the income generated from property management. Currently the group's activities in this regard are carried out in PRC.

(a) **Segment results, assets and liabilities**

For the purposes of assessing segment performance and allocating resources between segments, the Company's board of directors monitors the revenue, results, assets and liabilities attributable to each operating segment on the following bases:

Segment assets include all tangible assets and current assets directly attributable to each segment with the exception of property, plant and equipment, interests in associates, interests in jointly controlled entities, available-for-sale investments, deferred taxation assets, taxation recoverable and other corporate assets. Other corporate assets are not allocated to the operating segment because they are head office assets or assets which are managed centrally by the Group. The investment properties included in segment assets are stated at cost when assessed by the chief operating decision maker. Segment liabilities include trade payables and accrued expenditure on construction, bills payable, deposits received and receipt in advance from property sales, and other payables with exception of taxation payable, deferred taxation liabilities, bank and other borrowings and other corporate liabilities. Other corporate liabilities are not allocated to the operating segment because they are head office liabilities or liabilities which are managed on group basis.

Revenue and expenses are allocated to the operating segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment profit does not include the Group's share of results arising from the activities of the Group's jointly controlled entities.

The measure used for reporting segment profit is adjusted earnings before interest, taxes, depreciation, change in fair value of investment properties and finance costs ("Adjusted Earnings"), where "interest" is regarded as including investment income and "depreciation" is regarded as including impairment losses on non-current assets. To arrive at Adjusted Earnings the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditor's remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning segment profits, management is provided with segment information concerning revenue (including inter-segment sales) and additions to non-current segment assets used by the segments in their operations. Intersegment sales are priced with reference to prices charged to external parties for similar service.

Information regarding the Group's operating segments is set out below.

| | Year ended December 31, 2010 | | | |
|--|-------------------------------------|--------------------------------|---|-------------------|
| | Property development | Property investment | Property management and related services | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue from external customers | 14,596,701 | 287,281 | 209,140 | 15,093,122 |
| Inter-segment revenue | — | — | 36,678 | 36,678 |
| Segment revenue | <u>14,596,701</u> | <u>287,281</u> | <u>245,818</u> | <u>15,129,800</u> |
| Segment profit (Adjusted Earnings) | <u>4,498,483</u> | <u>220,346</u> | <u>50,479</u> | <u>4,769,308</u> |
| Segment assets | 49,288,258 | 3,049,476 | 9,356 | 52,347,090 |
| Segment liabilities | <u>28,826,325</u> | <u>23,534</u> | <u>66,030</u> | <u>28,915,889</u> |

Year ended December 31, 2009

| | Property development | Property investment | Property management and related services | Total |
|--|-------------------------|------------------------|---|-------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue from external customers | 11,029,310 | 197,975 | 146,677 | 11,373,962 |
| Inter-segment revenue | — | — | 17,395 | 17,395 |
| Segment revenue | <u>11,029,310</u> | <u>197,975</u> | <u>164,072</u> | <u>11,391,357</u> |
| Segment profit (Adjusted Earnings) | <u>2,797,455</u> | <u>146,888</u> | <u>36,489</u> | <u>2,980,832</u> |
| Segment assets | 27,457,370 | 2,196,888 | 5,477 | 29,659,735 |
| Segment liabilities | <u>14,891,370</u> | <u>52,003</u> | <u>51,638</u> | <u>14,995,011</u> |

Other segment information

| | Property development | Property investment | Property management and related services | Total |
|--|-------------------------|------------------------|---|------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Amounts included in the measure of segment assets: | | | | |
| 2010 | | | | |
| Additions to non-current assets (Note) | 11,759,241 | 458,709 | — | 12,217,950 |
| 2009 | | | | |
| Additions to non-current assets (Note) | 4,623,906 | 23,745 | — | 4,647,651 |

Note: Amounts include additions to investment properties, prepaid lease payments and deposits paid for acquisition of land use rights.

In addition to receiving segment information concerning segment profits, the chief operating decision maker is provided with information concerning the Group's consolidated amount of interests in associates and related share of results, interest in jointly controlled entities and related share of results, changes in fair value of investment properties, interest income from bank balances, finance costs from borrowings, depreciation and impairment losses which are not allocated to operating segments.

(b) **Reconciliations of reportable segment revenues, profit or loss, assets and liabilities**

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Revenue | | |
| Segment revenue | 15,129,800 | 11,391,357 |
| Elimination of inter-segment revenue | (36,678) | (17,395) |
| Consolidated revenue | <u>15,093,122</u> | <u>11,373,962</u> |
| Profit | | |
| Segment profit | 4,769,308 | 2,980,832 |
| Other income | 91,531 | 421,188 |
| Other gains and losses | 34,652 | 3,523 |
| Fair value gain upon transfer to investment properties | 777,023 | — |
| Change in fair value of investment properties | 1,713,090 | 920,945 |
| Finance costs | (66,677) | (27,499) |
| Share of results of jointly controlled entities | 183,035 | 135,998 |
| Depreciation | (24,019) | (21,863) |
| Unallocated expenses | (409,469) | (352,084) |
| Consolidated profit before taxation | <u>7,068,474</u> | <u>4,061,040</u> |
| Assets | | |
| Segment assets | 52,347,090 | 29,659,735 |
| Cumulative change in fair value of investment properties | 4,991,525 | 2,501,412 |
| Interests in associates | 1 | 1 |
| Interests in jointly controlled entities | 2,464,099 | 2,373,834 |
| Available-for-sales investments | 8,600 | 8,600 |
| Deferred taxation assets | 436,035 | 227,702 |
| Taxation recoverable | 539,034 | 134,265 |
| Unallocated head office and other assets | <u>10,927,180</u> | <u>7,539,553</u> |
| Consolidated total assets | <u>71,713,564</u> | <u>42,445,102</u> |
| Liabilities | | |
| Segment liabilities | 28,915,889 | 14,995,011 |
| Taxation payable | 2,635,182 | 1,616,029 |
| Deferred taxation liabilities | 1,593,846 | 1,098,807 |
| Bank and other borrowings | 17,324,359 | 9,765,505 |
| Unallocated head office and other liabilities | <u>3,878,468</u> | <u>1,731,188</u> |
| Consolidated total liabilities | <u>54,347,744</u> | <u>29,206,540</u> |

(c) **Revenue from major product and services**

The following is an analysis of the Group's revenue from its properties sold, property invested and services provided:

| | <u>Year ended</u> | |
|---|-------------------|-------------------|
| | <u>31.12.2010</u> | <u>31.12.2009</u> |
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Sales of properties | 14,596,701 | 11,029,310 |
| Leasing of properties | 287,281 | 197,975 |
| Provision of property management services | <u>209,140</u> | <u>146,677</u> |
| | <u>15,093,122</u> | <u>11,373,962</u> |

(d) **Geographic information**

The following table sets out information about the Group's revenue from external customers by cities in the PRC, based on the location at which the properties are sold, properties are invested and services are provided. Information about its non-current assets is analysed by geographical location of assets.

| | Revenues from external customers | | Non-current assets | |
|-----------------------------------|----------------------------------|-------------------|--------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Chongqing | 4,807,460 | 3,030,015 | 9,947,384 | 8,920,181 |
| Chengdu | 4,187,174 | 2,566,327 | 1,324,331 | 863,267 |
| Beijing | 4,835,818 | 5,090,778 | 5,687,083 | 576,056 |
| Other cities in the PRC | 1,262,670 | 686,842 | 5,874,261 | 3,377,260 |
| | <u>15,093,122</u> | <u>11,373,962</u> | <u>22,833,059</u> | <u>13,736,764</u> |

Note: Non-current assets excluded financial instruments and deferred taxation assets.

No revenue from transaction with single external customer is amounted to 10% or more of the Group's revenue.

6. OTHER INCOME

| | 2010 | 2009 |
|--|---------------|----------------|
| | RMB'000 | RMB'000 |
| Interest income | 60,078 | 47,620 |
| Consultancy fee income (Note 1) | 15,330 | 31,129 |
| Dividend income from available-for-sale investments unlisted | 1,120 | 685 |
| Excess compensation received from primary development project (Note 2) | — | 306,000 |
| Government subsidies | 8,611 | 5,406 |
| Sundry income | 6,392 | 30,348 |
| Total | <u>91,531</u> | <u>421,188</u> |

Notes:

1. It represents the design, decoration and consulting services related to real estate development provided by the Group to independent third parties in the PRC.
2. During the year ended December 31, 2006, the Group entered into a joint land renovation and development agreement with the government and paid deposits which aggregated to RMB794,000,000 totally as at December 31, 2008 (included in the deposits paid for acquisition of land use rights). On December 15, 2008, the Group entered into an agreement to terminate the joint land renovation and development as a result of change in the development plan of that region. Pursuant to the agreement of termination of the joint land renovation and development, the compensation from government (including the deposits paid by the Group) was RMB1,100,000,000. During the year ended December 31, 2009, the Group has received the full amount of the compensation and therefore the excess compensation was recognised as other income accordingly.

7. OTHER GAINS AND LOSSES

| | 2010 | 2009 |
|---|---------------|---------------|
| | RMB'000 | RMB'000 |
| Gain on disposal of property, plant and equipment | 434 | 33 |
| Net exchange gain | 34,218 | 3,490 |
| Loss on disposal of subsidiary | — | (10,533) |
| Bad debt recovery | — | 16,000 |
| Reverse of impairment loss on other receivables | — | 5,000 |
| | <u>34,652</u> | <u>13,990</u> |

8. FINANCE COSTS

| | <u>2010</u> | <u>2009</u> |
|--|------------------------|------------------------|
| | RMB'000 | RMB'000 |
| Interest on bank and other borrowings wholly repayable | | |
| Within five years | (753,617) | (548,322) |
| Over five years | <u>(105,583)</u> | <u>(62,793)</u> |
| Total bank and other borrowings | (859,200) | (611,115) |
| Less: Amount capitalised to properties under development | <u>792,523</u> | <u>583,616</u> |
| | <u><u>(66,677)</u></u> | <u><u>(27,499)</u></u> |

Borrowing costs capitalised arose on the general borrowing pool of the Group and were calculated by applying a capitalisation rate of 5.29% (2009: 5.38%) per annum for the year ended December 31, 2010, to expenditure on the qualifying assets.

9. INCOME TAX EXPENSE

| | <u>2010</u> | <u>2009</u> |
|---|---------------------------|---------------------------|
| | RMB'000 | RMB'000 |
| Current tax | | |
| PRC enterprise income tax ("EIT") | (1,088,527) | (609,428) |
| PRC land appreciation tax ("LAT") | <u>(999,591)</u> | <u>(468,916)</u> |
| | <u>(2,088,118)</u> | <u>(1,078,344)</u> |
| Overprovision in prior year: | | |
| EIT* | 263,408 | — |
| LAT** | <u>60,315</u> | <u>—</u> |
| | <u>323,723</u> | <u>—</u> |
| Deferred taxation (note 30) | | |
| Current year*** | (447,242) | (490,237) |
| Overprovision in prior year**** | <u>160,536</u> | <u>—</u> |
| | <u>(286,706)</u> | <u>(490,237)</u> |
| | <u><u>(2,051,101)</u></u> | <u><u>(1,568,581)</u></u> |

* During the year ended December 31, 2010, the assessment and computation of EIT payable in respect of certain completed projects were finalised at a preferential EIT rate of 15%, which was different from the management's estimation on EIT rate of 33% and 25% in prior years, resulting in a reversal of EIT during the year.

** The actual appreciation value of certain property projects had been finalised in the current year which differs from the management's estimated appreciation value made in prior years, resulting in an overprovision of LAT in respect of prior years.

*** Deferred taxation liabilities include provision for withholding tax which has been provided for 20% of the undistributed profits arising during the current year.

**** The actual dividend payout ratio in prior years, based on the dividend policy set out for the Company's subsidiaries situated in the PRC, was around 20% of the respective year's profit after tax (excluding net fair value gains or losses on investment properties), which differs from the management's previous estimates when it provided for deferred taxation liabilities in previous years, resulting in an overprovision of withholding tax in respect of prior years.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008 onwards.

Certain of the Company’s subsidiaries operating in the PRC are eligible for certain tax holidays and concessions and were exempted from PRC EIT for the year.

Pursuant to the relevant PRC corporate income tax rules and regulations, preferential corporate income tax rates have been granted to certain of the Company’s PRC subsidiaries which were established in western regions and engaged in the encouraged business. These companies are subject to a preferential rate of 15% from 2002 to 2010, subject to approval of the tax authority, if the annual income derived from the encouraged business is more than 70% of the annual total income. Approval has been obtained during the current year.

The tax charge for the year can be reconciled to the profit before taxation per consolidated statement of comprehensive income as follows:

| | <u>2010</u> | <u>2009</u> |
|---|--------------------|--------------------|
| | <u>RMB’000</u> | <u>RMB’000</u> |
| Profit before taxation | 7,068,474 | 4,061,040 |
| PRC EIT at 25% | (1,767,119) | (1,015,260) |
| Tax effect of share of results of jointly controlled entities | 45,759 | 34,000 |
| Tax effect of expenses not deductible for tax purposes (Note 1) | (101,880) | (73,653) |
| Tax effect of income not taxable for tax purposes | 9,677 | 698 |
| LAT. | (999,591) | (468,916) |
| Tax effect of LAT | 249,898 | 117,229 |
| Overprovision in prior years | 323,723 | — |
| Tax effect of tax losses not recognised. | (857) | (243) |
| Utilisation of tax loss previously not recognised. | 32 | 68 |
| Effect of tax exemption and concessionary rates granted to certain PRC subsidiaries | 53,942 | 20,194 |
| Withholding tax on retained profits to be distributed (Note 2) | 135,315 | (123,771) |
| Others (Note 3). | — | (58,927) |
| Tax charge for the year | <u>(2,051,101)</u> | <u>(1,568,581)</u> |

Notes:

1. The amount mainly comprises of the tax effect of non-deductible corporate expenses of the Group and the expenses of certain subsidiaries in excess of the allowable deduction limits in accordance with the relevant tax regulations.
2. According to the “Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income” and Guoshuifa [2008]112, where the Hong Kong resident company directly owns at least 25% of the capital of the Mainland company, 5% dividend withholding tax rate is applicable. The amount represents the withholding income tax provided on the undistributed profits arisen during the years ended December 31, 2010 and 2009 of certain PRC subsidiaries.
3. In accordance to the PRC tax circular (Guoshuifa [2009] 31) issued on March 6, 2009 and effective from January 1, 2008, the sales that were recognised by certain subsidiaries of the Company in 2009 which were related to the pre-sale in 2007 had to use 33%, instead of 25% to provide for the income tax expense. The amount represented the difference between the tax rate used to provide for the income tax expense arising from the recognition of revenue in that year.

10. PROFIT FOR THE YEAR

| | 2010 | 2009 |
|--|----------------|----------------|
| | RMB'000 | RMB'000 |
| Profit for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | 3,000 | 3,000 |
| Cost of property inventories included in cost of sales | 9,739,314 | 7,839,702 |
| Depreciation of property, plant and equipment | 24,019 | 21,863 |
| Gain on disposal of property, plant and equipment | (434) | (33) |
| Loss on disposal of subsidiary | — | 10,533 |
| Bad debt recovery | — | (16,000) |
| Reverse of impairment loss on other receivables | — | (5,000) |
| Operating lease rentals | 9,674 | 14,458 |
| Staff costs | | |
| Directors' emoluments (including equity-settled share-based payments) (note 11) | 62,994 | 44,850 |
| Other staff costs | | |
| Staff costs excluding retirement benefit costs | 461,038 | 403,263 |
| Retirement benefit contribution | 42,420 | 35,952 |
| Equity-settled share-based payments (note 37) | 61,151 | 40,070 |
| Total staff costs | 627,603 | 524,135 |
| Less: Amount capitalised to properties under development | (240,815) | (141,717) |
| | 386,788 | 382,418 |
| Minimum lease income from investment properties | 219,710 | 170,427 |
| Contingent rental income | 67,571 | 27,548 |
| Less: direct expenses that generated rental income | (61,281) | (56,072) |
| | 226,000 | 141,903 |
| Share of tax of jointly controlled entities (included in share of results of jointly controlled entities) | 98,528 | 70,268 |

DIRECTORS' AND EMPLOYEES' EMOLUMENTS

| | Directors' fees | Basic salaries and other benefits | Bonus | Retirement benefit contribution | Equity-settled share-based payments | Total |
|---|------------------------|--|----------------|--|--|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Year ended December 31, 2010 | | | | | | |
| Name of director | | | | | | |
| Executive Director: | | | | | | |
| Madam Wu Yajun | — | 3,172 | 4,000 | 35 | — | 7,207 |
| Mr. Lin Chu Chang | — | 1,650 | 2,425 | 66 | 3,318 | 7,459 |
| Mr. Fang Shengtao | — | 2,055 | 2,900 | 61 | 4,986 | 10,002 |
| Mr. Chen Kai | — | 2,055 | 4,000 | 63 | 14,893 | 21,011 |
| Mr. Qin Lihong | — | 2,055 | 4,000 | 61 | 9,237 | 15,353 |
| Independent non-executive director: | | | | | | |
| Mr. Frederick Peter Churhouse | 260 | — | — | — | 394 | 654 |
| Mr. Chan Chi On, Derek | 260 | — | — | — | 394 | 654 |
| Dr. Xiang Bing | 260 | — | — | — | 394 | 654 |
| | <u>780</u> | <u>10,987</u> | <u>17,325</u> | <u>286</u> | <u>33,616</u> | <u>62,994</u> |
| Year ended December 31, 2009 | | | | | | |
| Name of director | | | | | | |
| Executive Director: | | | | | | |
| Madam Wu Yajun | — | 4,103 | 3,000 | 30 | — | 7,133 |
| Mr. Lin Chu Chang | — | 2,132 | 800 | 80 | 4,730 | 7,742 |
| Mr. Fang Shengtao | — | 1,934 | 3,424 | 56 | 4,220 | 9,634 |
| Mr. Chen Kai | — | 1,934 | 4,867 | 57 | 2,141 | 8,999 |
| Mr. Qin Lihong | — | 1,667 | 4,791 | 56 | 2,041 | 8,555 |
| Mr. Cai Kui | — | 2,600 | — | 25 | — | 2,625 |
| Independent non-executive director: | | | | | | |
| Mr. Frederick Peter Churhouse | 44 | — | — | — | 10 | 54 |
| Mr. Chan Chi On, Derek | 44 | — | — | — | 10 | 54 |
| Dr. Xiang Bing | 44 | — | — | — | 10 | 54 |
| | <u>132</u> | <u>14,370</u> | <u>16,882</u> | <u>304</u> | <u>13,162</u> | <u>44,850</u> |

Note: The bonus relates to performance related incentive payment which is determined as a percentage of the profit of the Group for the years ended December 31, 2010 and 2009.

Employee's emoluments

The five highest paid individuals included three (2009: two) directors for the year ended December 31, 2010. The emoluments of the remaining two (2009: three) highest paid individuals for the year ended December 31, 2010 are as follows:

| | <u>2010</u> | <u>2009</u> |
|---|----------------|----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Employees | | |
| - basic salaries and allowances | 4,108 | 5,533 |
| - bonus | 7,600 | 10,646 |
| - retirement benefit contribution | 91 | 112 |
| - equity-settled share-based payments | 10,187 | 12,662 |
| | <u>21,986</u> | <u>28,953</u> |

During the years ended December 31, 2010 and 2009, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the years ended December 31, 2010 and 2009.

Their emoluments were within the following bands:

| | <u>Number of Individuals</u> | |
|--|------------------------------|-------------|
| | <u>2010</u> | <u>2009</u> |
| HK\$10,500,001 to HK\$11,000,000 | — | 2 |
| HK\$11,500,001 to HK\$12,000,000 | — | 1 |
| HK\$12,500,001 to HK\$13,000,000 | 1 | — |
| HK\$13,000,001 to HK\$13,500,000 | <u>1</u> | <u>—</u> |

12. DIVIDEND

| | <u>2010</u> | <u>2009</u> |
|--|----------------|----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Dividend recognised as distribution during the year: | | |
| Dividends declared and paid to the then shareholders | — | 88,120 |
| Final dividend paid in respect of 2009 of RMB0.063 per share | 324,450 | — |
| | <u>324,450</u> | <u>88,120</u> |

On October 2, 2009, the Company declared dividend of HK\$100,000,000 (equivalent to RMB88,120,000), which was conditional upon the listing of the Company's shares, to the then shareholders of the Company.

A final dividend of RMB515,500,000, RMB0.1 per share, in respect of the year ended December 31, 2010 (2009: final dividend of RMB324,450,000, RMB0.063 per share, in respect of the year ended December 31, 2009) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming Annual General Meeting.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | <u>2010</u> | <u>2009</u> |
|--|------------------|------------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Earnings attributable to the owners of the Company for the purposes of calculation of basic and diluted earnings per share | <u>4,130,156</u> | <u>2,209,207</u> |

| | <u>2010</u> | <u>2009</u> |
|---|------------------|------------------|
| | '000 | '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of calculation of basic earnings per share | 5,152,671 | 4,132,192 |
| Effect of dilutive potential ordinary shares in respect of - share options . . | <u>21,667</u> | <u>23,825</u> |
| Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share | <u>5,174,338</u> | <u>4,156,017</u> |

For the years ended December 31, 2010 and 2009, the outstanding share options issued under the Post-IPO share option scheme adopted on December 23, 2009 are not included in the calculation of diluted earnings per share as the adjusted exercise price was greater than the average market price of the Company's share during the outstanding period in 2010 and 2009.

14. INVESTMENT PROPERTIES

| | Completed investment properties | Investment properties under construction | Total |
|--|--|---|------------------|
| | RMB'000 | RMB'000 | RMB'000 |
| FAIR VALUE | | | |
| At January 1, 2009 | 3,759,100 | — | 3,759,100 |
| Additions | 23,745 | — | 23,745 |
| Disposal | (5,490) | — | (5,490) |
| Net increase in fair value recognised in profit or loss | <u>920,945</u> | <u>—</u> | <u>920,945</u> |
| At December 31, 2009 | 4,698,300 | — | 4,698,300 |
| Additions | 20,331 | 438,378 | 458,709 |
| Transfer from prepaid lease payments | — | 68,000 | 68,000 |
| Transfer from properties under development for sale (Note). | 98,500 | 192,388 | 290,888 |
| Transfer from properties held for sales (Note) | 34,990 | — | 34,990 |
| Transfer from investment properties under construction | 688,121 | — | 688,121 |
| Transfer to completed properties | — | (688,121) | (688,121) |
| Fair value gain upon transfer of properties under development for sales to investment properties | 284,200 | 443,213 | 727,413 |
| Fair value gain upon transfer of properties held for sales to investment properties | 1,110 | — | 1,110 |
| Fair value gain upon transfer of prepaid lease payments to investment properties. | — | 48,500 | 48,500 |
| Net increase in fair value recognised in profit or loss | <u>1,500,748</u> | <u>212,342</u> | <u>1,713,090</u> |
| At December 31, 2010 | <u>7,326,300</u> | <u>714,700</u> | <u>8,041,000</u> |

Note: The transfers from properties under development for sales and properties held for sales to investment properties were made since there was a change in use as evidenced by the commencement of operating leases to outside parties.

The investment properties are all situated in the PRC under medium-term lease.

The fair values of the Group's investment properties at dates of transfer and December 31, 2010 and 2009 have been arrived at on the basis of valuations carried out on those dates by Savills Valuation and Professional Services Limited, a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The fair values of the investment properties were determined by the valuers on the following basis:

Completed properties - arrived at using the direct comparison approach by making reference to comparable sales transactions as available in the relevant markets and where appropriate, by capitalising the net rental income derived from the existing tenancies with due allowance for reversionary incoming potential of the respective properties.

Properties under construction - valued on the basis that they will be developed and completed in accordance with the latest development proposals and taken into account the constructions costs that will be expended to complete the development to reflect the quality of the completed development.

The investment properties are situated in the PRC under medium term lease. All of the Group's property interests in leasehold land and buildings to earn rentals or for capital appreciation purposes are measured using the fair value model and classified and accounted for as investment properties.

15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Motor vehicles | Equipment and furniture | Total |
|---|------------------|-----------------------|------------------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| COST | | | | |
| At January 1, 2009 | 152,309 | 32,096 | 23,575 | 207,980 |
| Additions | 1,844 | 3,501 | 8,299 | 13,644 |
| Acquisition of subsidiaries | — | — | 39 | 39 |
| Transfer from properties under development upon completion of construction | 17,591 | — | — | 17,591 |
| Disposals | <u>(6,281)</u> | <u>(124)</u> | <u>(1,004)</u> | <u>(7,409)</u> |
| At December 31, 2009 | 165,463 | 35,473 | 30,909 | 231,845 |
| Additions | 3,512 | 5,770 | 17,523 | 26,805 |
| Disposals | <u>(1,844)</u> | <u>(4,301)</u> | <u>(1,311)</u> | <u>(7,456)</u> |
| At December 31, 2010 | <u>167,131</u> | <u>36,942</u> | <u>47,121</u> | <u>251,194</u> |
| ACCUMULATED DEPRECIATION | | | | |
| At January 1, 2009 | 20,192 | 11,990 | 8,822 | 41,004 |
| Charge for the year | 9,327 | 5,436 | 7,100 | 21,863 |
| Eliminated on disposals | <u>(1,890)</u> | <u>(117)</u> | <u>(876)</u> | <u>(2,883)</u> |
| At December 31, 2009 | 27,629 | 17,309 | 15,046 | 59,984 |
| Charge for the year | 8,178 | 6,040 | 9,801 | 24,019 |
| Eliminated on disposals | <u>(1,035)</u> | <u>(2,356)</u> | <u>(1,159)</u> | <u>(4,550)</u> |
| At December 31, 2010 | <u>34,772</u> | <u>20,993</u> | <u>23,688</u> | <u>79,453</u> |
| CARRYING VALUES | | | | |
| At December 31, 2010 | <u>132,359</u> | <u>15,949</u> | <u>23,433</u> | <u>171,741</u> |
| At December 31, 2009 | <u>137,834</u> | <u>18,164</u> | <u>15,863</u> | <u>171,861</u> |

The above items of property, plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values at the following rates per annum:

| | |
|-------------------------|---|
| Buildings | Over the estimated useful lives of 20 years or the term of the leases, if shorter |
| Motor vehicles | 20% |
| Equipment and furniture | 33% |

The buildings are all situated on land in the PRC held under medium-term leases.

The Group had not pledged any property, plant and equipment at December 31, 2010 and 2009.

16. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments represents land use rights held in the PRC and is analysed as follows:

| | <u>2010</u> | <u>2009</u> |
|-----------------------|------------------|------------------|
| | RMB'000 | RMB'000 |
| Medium term | 934,856 | 135,936 |
| Long term | 6,947,146 | 3,058,271 |
| Non-current | <u>7,882,002</u> | <u>3,194,207</u> |

The Group's prepaid lease payments represent payments for obtaining the land use rights in the PRC with lease terms ranging from 40 to 70 years for the purpose of property development. The Group had not yet obtained the certificates of land use rights of prepaid leases with a carrying value of approximately RMB4,798,585,000 (2009: RMB2,110,150,000) from the relevant authorities at December 31, 2010.

17. INTERESTS IN ASSOCIATES

| | <u>2010</u> | <u>2009</u> |
|--|----------------|----------------|
| | RMB'000 | RMB'000 |
| Cost of investments, unlisted | 415 | 415 |
| Less: Impairment loss recognised | <u>(414)</u> | <u>(414)</u> |
| | <u>1</u> | <u>1</u> |

Details of the associates as at December 31, 2010 are set out in note 41.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | <u>2010</u> | <u>2009</u> |
|---|------------------|------------------|
| | RMB'000 | RMB'000 |
| Cost of investments, unlisted | 2,225,685 | 2,225,681 |
| Share of post-acquisition profits, net of dividend received | 238,414 | 148,153 |
| | <u>2,464,099</u> | <u>2,373,834</u> |

Details of the jointly controlled entities as at December 31, 2010 are set out in note 41.

The summarised financial information in respect of the Group's jointly controlled entities attributable to the Group's interest therein which are accounted for using the equity accounting method is set out below:

| | <u>2010</u> | <u>2009</u> |
|-----------------------------------|--------------------|------------------|
| | RMB'000 | RMB'000 |
| Non-current assets | 835,818 | 850,815 |
| Current assets | 3,221,357 | 2,837,805 |
| Current liabilities | (881,199) | (659,065) |
| Non-current liabilities | (711,877) | (655,721) |
| Income | 1,529,696 | 573,145 |
| Expenses | <u>(1,346,661)</u> | <u>(437,147)</u> |

19. AVAILABLE-FOR-SALE INVESTMENTS

| | <u>2010</u> | <u>2009</u> |
|---|----------------|----------------|
| | RMB'000 | RMB'000 |
| Unlisted equity securities, at cost | <u>8,600</u> | <u>8,600</u> |

The above unlisted equity investments represent the investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be reliably measured.

20. INVENTORIES

| | <u>2010</u> | <u>2009</u> |
|----------------------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| Construction materials | 414,463 | 300,420 |
| Consumables and others | <u>1,476</u> | <u>628</u> |
| | <u>415,939</u> | <u>301,048</u> |

21. PROPERTIES UNDER DEVELOPMENT FOR SALES

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| | RMB'000 | RMB'000 |
| COST | | |
| At the beginning of the year | 18,312,478 | 14,890,771 |
| Additions | 19,318,981 | 7,560,542 |
| Additions through additional interests in subsidiaries/acquisition of subsidiaries | 30,000 | 826,204 |
| Disposal of a subsidiary | — | (18,112) |
| Transfer from prepaid lease payments upon commencement of construction | 6,012,090 | 1,431,482 |
| Transfer to properties held for sales | (11,792,036) | (6,360,818) |
| Transfer to property, plant and equipment upon completion of construction | — | (17,591) |
| Transfer to investment properties | <u>(290,888)</u> | <u>—</u> |
| At the end of the year | <u>31,590,625</u> | <u>18,312,478</u> |

The properties under development for sales are located in the PRC under medium-term lease.

Included in the properties under development for sales classified as current assets as at December 31, 2010 is carrying value of RMB23,913 million (2009: RMB5,778 million) which represents the carrying value of the properties expected to be completed and sold after more than twelve months from the end of the reporting period.

22. PROPERTIES HELD FOR SALES

The Group's properties held for sales are situated in the PRC. All the properties held for sales are stated at cost.

23. ACCOUNTS AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade receivables are mainly arisen from sales of properties. Considerations in respect of sales of properties are paid by purchases in accordance with the terms of the related sales and purchase agreements, normally within 45 days from the agreement. Considerations under pre-sale contracts will be fully received prior to the delivery of the properties to the purchasers.

| | <u>2010</u> | <u>2009</u> |
|--|------------------|------------------|
| | RMB'000 | RMB'000 |
| Trade receivables | 343,397 | 143,394 |
| Other receivables, net of allowance for doubtful debts | 543,690 | 209,572 |
| Advances to suppliers | 191,188 | 246,246 |
| Prepaid tax | 1,429,263 | 782,961 |
| Prepayments and utilities deposits | 8,755 | 724 |
| | <u>2,516,293</u> | <u>1,382,897</u> |

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

| | <u>2010</u> | <u>2009</u> |
|--------------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| Within 60 days | 337,531 | 136,261 |
| 61 - 180 days | 5,866 | 4,652 |
| 181 - 365 days | — | 2,481 |
| 1 - 2 years | — | — |
| | <u>343,397</u> | <u>143,394</u> |

At December 31, 2010, 98% (2009: 95%) of the trade receivables are neither past due nor impaired and with satisfactory credit quality.

Included in the Group's accounts receivable balance are trade receivables with a carrying amount of approximately RMB5,886,000 (2009: RMB7,133,000) at December 31, 2010 which are past due at the end of the reporting period for which the Group has not provided for as the Group has retained the legal titles of the properties sold to these customers at each end of the reporting period and the estimated fair value of the relevant properties is expected to be higher than the outstanding receivable amount.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

Before accepting any customers, the Group uses an internal credit assessment system to assess the potential customers' credit quality and defines credit limits by customer, and considers adequate allowance has been made at the end of the reporting period. Balances which are neither past due nor impaired are all with good credit quality.

Other receivables include mainly temporary payments and miscellaneous projects related deposits paid which are refundable upon maturity, of which, approximately RMB12,000,000 (2009: RMB39,566,000) was impaired as at December 31, 2010 because the counterparties are in severe financial difficulties and the Group does not hold any collateral over these balances. The remaining balance was not yet due for repayment.

Movements in the allowance for doubtful debts on other receivables:

| | <u>2010</u> | <u>2009</u> |
|--|-----------------|----------------|
| | RMB'000 | RMB'000 |
| Balance at the beginning of the year | 39,566 | 44,566 |
| Amounts recovered during the year | — | (5,000) |
| Amounts written off as uncollectible during the year | <u>(27,566)</u> | <u>—</u> |
| Balance at the end of the year | <u>12,000</u> | <u>39,566</u> |

24. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts due from jointly-controlled entities are unsecured, interest-free and are repayable within one year.

25. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits are denominated in RMB which represent deposits pledged to the banks to secure the mortgage guarantees provided to customers. The deposits carry fixed rate at 0.36% (2009: 0.36%) per annum at December 31, 2010.

Bank balances and cash comprise cash held by the Group and demand deposits with an original maturity of three months or less.

The interest rates on cash placed with financial institutions ranged from nil to 2.75% (2009: nil to 2.25%) per annum.

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|------------------|
| | RMB'000 | RMB'000 |
| Analysis of pledged bank deposits/bank balances and cash by currency: | | |
| - Denominated in RMB | 9,932,239 | 4,199,624 |
| - Denominated in HKD | 361,272 | 2,077,520 |
| - Denominated in United States dollars ("USD") | <u>69,040</u> | <u>1,020,637</u> |
| | <u>10,362,551</u> | <u>7,297,781</u> |

26. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| | RMB'000 | RMB'000 |
| Trade payables and accrued expenditure on construction | 2,618,597 | 1,611,284 |
| Bills payable | 5,306 | 42,738 |
| Deposits received and receipt in advance from property sales | 26,291,986 | 13,340,989 |
| Other payables and accrued charges | <u>2,558,978</u> | <u>1,367,309</u> |
| | <u>31,474,867</u> | <u>16,362,320</u> |

Trade payables and accrued expenditure on construction comprise construction costs and other project-related expenses which are payable based on project progress measured by the Group. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The following is an aged analysis of trade payables and accrued expenditure on construction and bills payable at the end of the reporting period:

| | <u>2010</u> | <u>2009</u> |
|--------------------------|------------------|------------------|
| | RMB'000 | RMB'000 |
| Within 60 days | 2,174,354 | 1,396,739 |
| 61 - 180 days | 223,733 | 142,015 |
| 181 - 365 days | 131,905 | 76,478 |
| 1 - 2 years | 68,066 | 34,270 |
| 2 - 3 years | 15,868 | 2,499 |
| Over 3 years | 9,977 | 2,021 |
| | <u>2,623,903</u> | <u>1,654,022</u> |

27. AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES

The amounts are denominated in RMB which are unsecured, interest free and repayable on demand.

28. BANK AND OTHER BORROWINGS

| | <u>2010</u> | <u>2009</u> |
|---------------------------------|-------------------|------------------|
| | RMB'000 | RMB'000 |
| Bank loans, secured | 7,614,700 | 5,810,000 |
| Bank loans, unsecured | 7,765,665 | 2,240,310 |
| Other loan, secured | 246,000 | — |
| Other loan, unsecured | 310,000 | 329,000 |
| Bond, secured | 1,387,994 | 1,386,195 |
| | <u>17,324,359</u> | <u>9,765,505</u> |

The borrowings are repayable (Note):

| | <u>2010</u> | <u>2009</u> |
|--|--------------------|--------------------|
| | RMB'000 | RMB'000 |
| Within one year | 2,859,870 | 3,710,200 |
| More than one year, but not exceeding two years | 4,567,603 | 1,868,750 |
| More than two years, but not exceeding three years | 7,221,174 | 2,800,360 |
| More than three years, but not exceeding four years | 957,718 | — |
| Exceeding five years | 1,717,994 | 1,386,195 |
| | 17,324,359 | 9,765,505 |
| Less: Amount due within one year shown under current liabilities | <u>(2,859,870)</u> | <u>(3,710,200)</u> |
| Amount due after one year | <u>14,464,489</u> | <u>6,055,305</u> |

Note: The amounts due are based on scheduled repayment dates set out in the loan agreements.

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|-------------------|------------------|
| | RMB'000 | RMB'000 |
| Analysis of borrowings by currency: | | |
| - Denominated in RMB | 14,666,684 | 8,691,295 |
| - Denominated in HKD | 2,657,675 | 1,074,210 |
| | <u>17,324,359</u> | <u>9,765,505</u> |

Certain bank, other loans and bonds as at the end of the reporting period were secured by the pledge of assets as set out in note 33.

Bank and other loans include approximately RMB4,077,275,000 (2009: RMB1,483,210,000) fixed rate loans which carry interest ranging from 3.08% to 5.81% (2009: 3.08% to 5.4%) per annum at December 31, 2010, and exposing the Group to fair value interest rate risk. The remaining loans are arranged at variable rate based on the interest rates quoted by the People's Bank of China, the effective interest rate is ranging from 5.13% to 6.40% (2009: 4.86% to 5.67%) per annum for the year ended December 31, 2010.

On May 5, 2009, the Group issued a bond of the principal amount of RMB1,400,000,000 and will be repayable in full by May 5, 2016, subject to early redemption. The bond bears fixed coupon interest rate at 6.7% per annum for the first five years payable semi-annually in arrears and is subject to an one-off upward adjustment of up to 100 basis points (inclusive) from May 5, 2014 at the election of the Group. The Group will determine on April 25, 2014 the interest rate by election of an upward adjustment to the interest rate but if it determines to maintain the interest rate at 6.7%, the holder of the bond then may elect to redeem all or part of the bond at the face value. A portion of such bond (RMB1,100,000,000) is listed and traded on the Shanghai Stock Exchange. The bond is secured by certain properties and land use rights of the Group.

Management estimates the fair value of the bond at December 31, 2010 to be approximately RMB1,468,320,000 (2009: RMB1,437,800,000). The fair values of both the listed and unlisted portions of the bond have been calculated with reference to the quoted market price of the listed portion of the bond.

29. CAPITAL AND RESERVES

| | <u>Number of ordinary shares</u> | <u>Nominal value</u> HK\$'000 |
|---|--------------------------------------|---|
| Authorised | | |
| At January 1, 2009, December 31, 2009 and December 31, 2010 | 10,000,000,000 | 1,000,000 |
| Issued and fully paid | | |
| At January 1, 2009 | 4,000,000,000 | 400,000 |
| Issue of shares by global offering (note (a)(i)) | 1,150,000,000 | 115,000 |
| At December 31, 2009 | 5,150,000,000 | 515,000 |
| Issue of shares upon exercise of share options (note (a)(ii)) | 5,000,000 | 500 |
| At December 31, 2010 | 5,155,000,000 | 515,500 |
| Shown in the consolidated financial statements | | |
| At December 31, 2010 | RMB equivalent | 453,410 |
| At December 31, 2009 | RMB equivalent | 452,972 |

(a) Share capital

- (i) In November, 2009, 1,150,000,000 shares of HK\$0.1 each were issued pursuant to the initial public offering of the Company by way of Hong Kong public offering and global offering at a price of HK\$7.07 per share. All the shares which were issued by the Company during the year rank pari passu with each other in all respects.
- (ii) During the year ended December 31, 2010, the Company issued 5,000,000 shares of HK\$0.1 each upon exercise of share options. The exercise price of the share options during the period is HK\$2.94 (equivalent to RMB 2.57). The new shares issued rank pari passu with the then existing shares in all aspects.

(b) Reserves

Name nature and purpose of reserves

(i) *Share premium*

Share premium at December 31, 2010 and 2009 represented share premium of the Company.

The share premium account is governed by the Cayman Companies Law and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the Company to be issued to equity shareholders as fully

paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the Company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the Company.

Provided that no distribution or dividend may be paid to the equity shareholders out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) *Capital reserve*

On June 11, 2008, a group reorganisation was completed for the preparation of the listing of the Company's shares by issuing 3,999,999,000 shares of HK\$0.1 each. The difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of Juntion Development Hong Kong (Holding) Limited ("Juntion Development"), then holding company of the Group, is charged to capital reserve.

On October 2, 2009, the Company declared dividend of HK\$100,000,000 (equivalent to RMB88,120,000), which was conditional upon the listing of the Company's shares, to the then shareholders of the Company and charged to capital reserve.

(iii) *Special reserve*

During the year ended December 31, 2007, Juntion Development injected additional capital of HK\$770,000,000 in a non-wholly owned subsidiary, Chongqing Longhu Development Company Limited ("Chongqing Longhu Development") in which the minority shareholders are Madam Wu Yajun and Mr. Cai Kui, who are also the ultimate shareholders of the Company. The Group's equity interest in Chongqing Longhu Development has increased from 60% to 91.3% and a discount on deemed acquisition of RMB620,672,000 which represents the excess of the share of net assets attributable to the additional interest acquired over the amount injected was recognised in special reserve as the contribution from equity owners.

(iv) *Other reserve*

During the year ended December 31, 2010, the Group acquired additional 0.7%, 8%, 8% and 25% of the registered capital of Xi'an Longhu Jincheng Company Limited ("Xi'an Jincheng"), Chengdu Longhu Jinhua Real Estate Company Limited ("Chengdu Jinhua"), Sichuan Longhu Real Estate Development Company Limited ("Sichuan Longhu") and Chengdu Longhu Tongjin Real Estate Company Limited ("Chengdu Tongjin") at a consideration of RMB16,750,000, RMB72,000,000, RMB36,000,000 and RMB520,080,000 respectively from non-controlling shareholders. These acquisitions have been accounted for as equity transactions and the differences between the amounts by which the non-controlling interests are adjusted and the fair values of the considerations paid are recognised directly in other reserve.

(v) *Statutory surplus reserve*

In accordance with the articles of association of certain subsidiaries established in the PRC, these subsidiaries are required to transfer 10% of the profit after taxation to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity owners. The statutory surplus reserve can be used to make up for previous year's losses, expand the existing operations or convert into additional capital of the subsidiaries.

(vi) *Capital contribution reserve*

Capital contribution reserve represents the recognition of the fair value of share awards under the Pre-IPO share award scheme over the vesting period as set out in note 37(a).

30. DEFERRED TAXATION

The followings are the major deferred taxation assets (liabilities) recognised and movements thereon during the year:

| | Accelerated tax depreciation | Fair value of investment properties | Tax losses | Land appreciation tax provisions | Allowance for doubtful debts | Government grants (Note 1) | Unrealised profit on intra-group purchases | Withholding tax on retained profits to be distributed | Others (Note 2) | Temporary differences on revenue recognition and related cost of sales | Total |
|---|------------------------------|-------------------------------------|------------|----------------------------------|------------------------------|----------------------------|--|---|-----------------|--|-------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At January 1, 2009 | (32,413) | (718,762) | 30,358 | 95,007 | 9,000 | 31,012 | 12,561 | (44,887) | 24,480 | 210,118 | (383,526) |
| (Charge) credit to profit or loss | (9,635) | (230,132) | (5,680) | 93,824 | (5,250) | (1,867) | 8,904 | (123,771) | (6,512) | (210,118) | (490,237) |
| Acquisition of subsidiaries | — | — | 1,100 | — | — | — | — | — | 1,558 | — | 2,658 |
| At December 31, 2009 | (42,048) | (948,894) | 25,778 | 188,831 | 3,750 | 29,145 | 21,465 | (168,658) | 19,526 | — | (871,105) |
| (Charge) credit to profit or loss | (10,076) | (622,528) | 7,151 | 161,603 | — | (821) | 26,125 | 135,315 | 16,525 | — | (286,706) |
| At December 31, 2010 | (52,124) | (1,571,422) | 32,929 | 350,434 | 3,750 | 28,324 | 47,590 | (33,343) | 36,051 | — | (1,157,811) |

Notes:

1. This represents the tax effect of the temporary difference arising from the treatment of the government grants between the accounting standard and the tax bureau. Tax bureau treated the government grants as an income but for financial reporting purpose, the government grants are treated as deduction from costs of properties under development for sale.
2. This represents the tax effect of temporary differences arising from the deduction of the advertising expense. The Group can deduct its advertising expense of no more than 15% of its revenue and for the part that cannot be deducted, if any, it can be brought forward to the future years.

For the presentation purposes of the consolidated statement of financial position, certain deferred taxation assets (liabilities) have been offset. The following is the analysis of the deferred taxation balances for financial reporting purposes:

| | <u>2010</u> | <u>2009</u> |
|---|--------------------|--------------------|
| | RMB'000 | RMB'000 |
| Deferred taxation assets | 436,035 | 227,702 |
| Deferred taxation liabilities | <u>(1,593,846)</u> | <u>(1,098,807)</u> |
| | <u>(1,157,811)</u> | <u>(871,105)</u> |

At December 31, 2010, the Group had unused estimated tax losses of approximately RMB187,188,000 (2009: RMB155,286,000) available to offset against future profits. Deferred taxation assets have been recognised in respect of approximately RMB131,714,000 (2009: RMB103,111,000) of such losses. No deferred taxation asset has been recognised in respect of the remaining RMB55,474,000 (2009: RMB52,175,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years:

| | <u>2010</u> | <u>2009</u> |
|----------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| 2012 | 1,338 | 1,338 |
| 2013 | 49,820 | 49,865 |
| 2014 | 888 | 972 |
| 2015 | <u>3,428</u> | <u>—</u> |
| | <u>55,474</u> | <u>52,175</u> |

31. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

- (i) During the year ended December 31, 2010, the Group acquired additional 0.7%, 8%, 8% and 25% of the registered capital of Xi'an Jincheng, Chengdu Jinhua, Sichuan Longhu and Chengdu Tongjin at a considerations of RMB16,750,000, RMB72,000,000, RMB36,000,000 and RMB520,080,000 from the non-controlling shareholders.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

- (ii) During the year ended December 31, 2010, the Group acquired additional 8% of the issued share capital of Changzhou Jia'nan Properties Co., Ltd, at a consideration of RMB34,000,000 from the non-controlling shareholders.

32. RETIREMENT BENEFIT PLANS

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered by the local municipal government. The Company's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustee. The Group contributes 5% of relevant payroll costs to the scheme and the same amount is matched by employees.

The Group recognised the retirement benefit contribution of RMB42,706,000 (2009: RMB36,256,000) for the year ended December 31, 2010.

33. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking and other facilities granted to the Group and mortgage loans to buyers of sold properties at the end of the reporting period:

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| | RMB'000 | RMB'000 |
| Investment properties | 2,859,277 | 3,286,338 |
| Properties under development for sales | 10,934,011 | 8,081,396 |
| Properties held for sales | — | 10,553 |
| Pledged bank deposits | 499,419 | 496,208 |
| | <u>14,292,707</u> | <u>11,874,495</u> |

34. LEASE ARRANGEMENTS

The Group as a lessor

Contingent rental for certain properties was determined by a certain percentage of turnover earned by the tenants. The contingent rental income recognised during the year ended December 31, 2010 amounted to approximately RMB67,571,000 (2009: RMB27,548,000). The properties held by the Group for rental purpose have committed tenants for periods ranging from one to twenty years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | <u>2010</u> | <u>2009</u> |
|---|------------------|------------------|
| | RMB'000 | RMB'000 |
| Within one year | 274,200 | 200,839 |
| In the second to fifth year inclusive | 562,473 | 440,797 |
| After five years | 359,581 | 499,981 |
| | <u>1,196,254</u> | <u>1,141,617</u> |

The Group as a lessee

At the end of the reporting period, the Group had the following future minimum lease payments under non-cancelable operating leases in respect of leased properties:

| | <u>2010</u> | <u>2009</u> |
|---|----------------|----------------|
| | RMB'000 | RMB'000 |
| Within one year | 14,583 | 14,131 |
| In the second to fifth year inclusive | 33,370 | 21,951 |
| After five years | 3,873 | 4,663 |
| | <u>51,826</u> | <u>40,745</u> |

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of one to twenty years and rentals are fixed at the date of signing of lease agreements.

35. COMMITMENTS

At the end of the reporting period, the Group had the following commitments:

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| | RMB'000 | RMB'000 |
| Contracted but not provided for in the consolidated financial statements: | | |
| - Expenditure in respect of properties under development for sales | 7,749,357 | 6,043,737 |
| - Expenditure in respect of acquisition of land use rights | 7,288,986 | 8,533,238 |
| - Acquisition of additional interest in a subsidiary | — | 109,100 |
| | <u>15,038,343</u> | <u>14,686,075</u> |

36. CONTINGENT LIABILITIES

The Group provided guarantees amounting to approximately RMB5,204,923,000 (2009: RMB2,686,846,000) as at December 31, 2010 in respect of mortgage bank loans granted to purchasers of the Group's properties. In the opinion of the directors of the Company, the fair values of these financial guarantee contracts of the Group are insignificant at initial recognition and the directors of the Company consider that the possibility of default of the parties involved is remote, accordingly, no value has been recognised at the inception of the guarantee contracts and at the end of the reporting period as at December 31, 2010 and 2009.

Guarantees are given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon delivery of the properties to the purchasers or completion of the relevant mortgage properties registration.

| | <u>2010</u> | <u>2009</u> |
|------------------------------|------------------|------------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Mortgage guarantees. | <u>5,204,923</u> | <u>2,686,846</u> |

37. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share award/share option schemes:

a. *Pre-IPO share award schemes*

The Company's two Pre-IPO share award schemes (the "Share Award Schemes") were adopted pursuant to a resolution passed on November 30, 2007 and July 31, 2009 respectively. Under the Share Award Schemes, the Company has awarded the Company's shares (the "Awarded Shares") to directors of the Company and certain employees of the Group. The objective of the Share Award Schemes is to align the interests of the employees with those of the Company, to share the pride of ownership among employees and to reward their performance and contribution to the Group.

Under the scheme adopted on November 30, 2007, the total number of shares in respect of which Awarded Shares had been granted on November 30, 2007 and remained outstanding was 32,007,000 (including 3,374,500 shares granted to directors) and 48,010,500 (including 5,061,750 shares granted to directors), representing 0.7% and 0.93% of the shares of the Company at that date, as at December 31, 2010 and 2009. The Awarded Shares, subject to a vesting period, are being held by a trust of the ultimate shareholders. The vesting period is either four or five years during which the award shares granted to employee will vest on each anniversary of the first vesting date in equal portions. The first vesting date is January 1, 2009.

Under the scheme adopted on July 31, 2009, the total number of shares in respect of which Awarded Shares had been granted on July 31, 2009 and remained outstanding was 22,500,000 (including 5,522,250 shares granted to directors) and 30,000,000 (including 7,363,000 shares granted to directors), representing 0.44% and 0.75% of the shares of the Company at that date, as at December 31, 2010 and 2009. The Awarded Shares, subject to a vesting period, are being held by a trust of the ultimate shareholders. The vesting period is four years during which the award shares granted to employee will vest on each anniversary of the first vesting date in equal portions. The first vesting date is July 31, 2010.

The weighted average fair values of the shares granted on November 30, 2007 and July 31, 2009 were RMB116,050,000 and RMB71,250,000 respectively and were determined using a mix of asset-based and market approach with option-based pricing model is adopted to account for the vesting condition. The significant inputs into the model were estimated fair value of shares at the grant date, expected dividend pay out rate, annual risk-free rate and volatility rate. The volatility is measured based on past years historical price volatility of similar companies listed on the SEHK.

The Group recognised an expense of RMB62,157,000 and RMB39,861,000 for the years ended December 31, 2010 and 2009 respectively in relation to shares awarded by the Company. The shares awarded by the Company will be settled with the existing shares held by the trust of the ultimate shareholders. Accordingly, the respective amounts were credited to capital contribution reserve.

The terms and conditions of the grants that existed during the year are as follows:

| | Number of share awards | Vesting Conditions |
|--|-----------------------------------|--|
| Share Awards granted to directors: | | |
| - on November 30, 2007 | 6,749,000 | 25% from the date of grant to January 1, 2009 25% from the date of grant to January 1, 2010 25% from the date of grant to January 1, 2011 25% from the date of grant to January 1, 2012 |
| - on July 31, 2009 | 7,363,000 | 25% from the date of grant to July 31, 2010 25% from the date of grant to July 31, 2011 25% from the date of grant to July 31, 2012 25% from the date of grant to July 31, 2013 |
| Share Awards granted to employees: | | |
| - on November 30, 2007. | 57,265,000 | 25% from the date of grant to January 1, 2009 25% from the date of grant to January 1, 2010 25% from the date of grant to January 1, 2011 25% from the date of grant to January 1, 2012 |
| - on July 31, 2009 | <u>22,637,000</u> | 25% from the date of grant to July 31, 2010 25% from the date of grant to July 31, 2011 25% from the date of grant to July 31, 2012 25% from the date of grant to July 31, 2013 |
| Total share awards as at January 1, 2009 | 94,014,000 | |
| Vested during the year | <u>(16,003,500)</u> | |
| Outstanding as at December 31, 2009 | 78,010,500 | |
| Vested during the year | <u>(23,503,500)</u> | |
| Outstanding as at December 31, 2010 | <u>54,507,000</u> | |

b. ***Pre-IPO share option scheme***

The Company's Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a resolution passed on November 30, 2007 for the primary purpose of providing incentives to directors and eligible employees of the Group, and options can only be offered and granted from November 30, 2007 until the business date before the date on which dealings in the Company's share first commence on the SEHK ("the Listing Date"). Under the Pre-IPO share Option Scheme, the directors of the Company and its subsidiaries were granted options to subscribe for shares in the Company. The term of the Pre-IPO share Option Scheme is 10 years from the date of adoption.

On November 30, 2007, 37,940,000 shares (including 15,588,000 shares granted to directors) of option were granted. The number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme as at December 31, 2010 and 2009 was 32,940,000 and 37,940,000, representing 0.64% and 0.74% of the shares of the Company as at December, 2010 and 2009.

The total number of the Company's shares which may be issued upon exercise of all options to be granted under the Pre-IPO Share Option Scheme and other share option schemes of the Company shall not exceed 10% of the aggregate of the shares of the Company in issue at the Listing Date. The exercise price of the Pre-IPO Share Option initial at HK\$6.46 and amended to HK\$2.94 effective from January 1, 2009.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme and other share option scheme of the Company must not exceed 30% of the shares in issue from time to time.

The vesting period of the share options is as follows:

| | |
|------|---|
| 25%: | from the date of grant to January 1, 2009 |
| 25%: | from the date of grant to January 1, 2010 |
| 25%: | from the date of grant to January 1, 2011 |
| 25%: | from the date of grant to January 1, 2012 |

The Group recognised the total expense of RMB11,730,000 (2009: RMB12,941,000) for the year ended December 31, 2010 in relation to Pre-IPO share options granted by the Company.

The terms and conditions of the grants that existed during the year are as follows:

| | Number of Options | Contractual life | Vesting Conditions of options |
|---|------------------------------|---|--|
| Share Options granted to directors: | | | |
| - on November 30, 2007 | 15,588,000 | 25% from the date of grant to January 1, 2009 | 10 years |
| | | 25% from the date of grant to January 1, 2010 | 10 years |
| | | 25% from the date of grant to January 1, 2011 | 10 years |
| | | 25% from the date of grant to January 1, 2012 | 10 years |
| Share Options granted to employees: | | | |
| - on November 30, 2007 | <u>22,352,000</u> | 25% from the date of grant to January 1, 2009 | 10 years |
| | | 25% from the date of grant to January 1, 2010 | 10 years |
| | | 25% from the date of grant to January 1, 2011 | 10 years |
| | | 25% from the date of grant to January 1, 2012 | 10 years |
| Total share options at December 31, 2009 | 37,940,000 | | |
| Exercised during the year (Note) | <u>(5,000,000)</u> | | |
| Total share options at December 31, 2010 | <u>32,940,000</u> | | |
| Exercisable at December 31, 2009 | <u>9,485,000</u> | | |
| Exercisable at December 31, 2010 | <u>13,970,000</u> | | |

Note: The weighted average share price at the dates of exercise is HK\$7.96.

c. **Post-IPO share option scheme**

The Company's Post-IPO share option scheme (the "Post-IPO Share Option Scheme") was adopted pursuant to a resolution passed on December 23, 2009 for the primary purpose of providing incentives to directors and eligible employees of the Group. Under the Post-IPO Share Option Scheme, the directors of the Company and its subsidiaries were granted options to subscribe for shares in the Company. The term of the Post-IPO Share Option Scheme is 10 years from the date of adoption.

On December 23, 2009, options to subscribe 10,600,000 shares were granted. The number of shares in respect of which options had been granted and remained outstanding under the Post-IPO Share Option Scheme as at December 31, 2010 and 2009 was 10,600,000 (including 9,600,000 shares granted to directors), representing 0.21% of the shares of the Company as at December 31, 2010 and 2009.

The total number of the Company's shares which may be issued upon exercise of all options to be granted under the scheme and other share option schemes of the Company shall not exceed 10% of the aggregate of the shares of the Company in issue at the Listing Date. The exercise of the Post-IPO Share Option is HK\$8.44.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and other share option scheme of the Company must not exceed 30% of the shares in issue from time to time.

The vesting period of the share options is as follows:

25%: from the date of grant to December 23, 2010
 25%: from the date of grant to December 23, 2011
 25%: from the date of grant to December 23, 2012
 25%: from the date of grant to December 23, 2013

The Group recognised the total expense of RMB20,880,000 (2009: RMB430,000) for the year ended December 31, 2010 in relation to share options granted by the Company.

The terms and conditions of the grants that existed during the year are as follows:

| | <u>Number of Options</u> | <u>Vesting Conditions</u> | <u>Contractual life of options</u> |
|--|------------------------------|---|--|
| Share Options granted to directors: | | | |
| - on December 23, 2009 | 9,600,000 | 25% from the date of grant to December 23, 2010 | 10 years |
| | | 25% from the date of grant to December 23, 2011 | 10 years |
| | | 25% from the date of grant to December 23, 2012 | 10 years |
| | | 25% from the date of grant to December 23, 2013 | 10 years |
| Share Options granted to employees: | | | |
| - on December 23, 2009 | <u>1,000,000</u> | 25% from the date of grant to December 23, 2010 | 10 years |
| | | 25% from the date of grant to December 23, 2011 | 10 years |
| | | 25% from the date of grant to December 23, 2012 | 10 years |
| | | 25% from the date of grant to December 23, 2013 | 10 years |
| Total share options | <u>10,600,000</u> | | |
| Exercisable at December 31, 2009 | <u>—</u> | | |
| Exercisable at December 31, 2010 | <u>2,650,000</u> | | |

38. RELATED PARTY TRANSACTIONS

Apart from the balances with related parties set out in the consolidated statement of financial position, and in notes 24 and 27, during the year, the Group entered into the following significant transactions with its related parties:

(a) Jointly controlled entities

| | <u>2010</u> | <u>2009</u> |
|--------------------------------------|----------------|----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Sales of properties | 1,744 | 35,564 |
| Consultancy fee income | 13,588 | 13,000 |
| Property management income | <u>7,013</u> | <u>4,708</u> |

(b) Key management and shareholders

| | <u>2010</u> | <u>2009</u> |
|--|----------------|----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Sales of properties to key management and shareholders | <u>18,931</u> | <u>33,423</u> |

(c) The remuneration paid and payable to the key management of the Company who are also the directors of the Company for the year is set out in note 11.

(d) On June 30, 2009, the Group issued a financial guarantee of HK\$100,000,000 to a bank in respect of loans granted to a related party, Dujiangyan Qingcheng Co., of which two directors are common to the Company and have beneficial interests. The guarantee was fully released before December 31, 2009.

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes, where appropriate, the borrowings disclosed in note 28, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to balance its overall capital structure.

40. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|-------------------|
| | RMB'000 | RMB'000 |
| Financial assets | | |
| Available-for-sale investments | 8,600 | 8,600 |
| Loans and receivables (including cash and cash equivalents) | 11,257,000 | 7,686,018 |
| Financial liabilities | | |
| Amortised cost | <u>22,745,641</u> | <u>12,656,244</u> |

b. Financial risk management objectives and policies

The Group's major financial instruments include accounts and other receivables, amounts due from (to) related parties, pledged bank deposits, bank balances and cash, accounts payable, and bank and other borrowings. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

c. Market risk

The Group's activities expose primarily to the market risks of changes in interest rates, foreign currency exchange rates risks and other price risk (see below).

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk over the year.

Interest rate risk management

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank and other borrowings which carried at prevailing market interest rates and variable rate based on the interest rates quoted by the People's Bank of China.

The Group's fair value interest rate risk relates primarily to pledged bank deposits and bank and other borrowings which carried fixed interest rate. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

The sensitivity analyses below have been prepared based on the exposure to interest rates for non-derivative instruments carried at variable rates (bank balances and bank and other borrowings) at the end of the reporting period and assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 200 basis point increase or decrease for bank and other borrowings and a 100 basis point increase or decrease for bank deposit are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the possible change in interest rate in respect of bank and other borrowings and bank deposits respectively.

At the end of the reporting period, if interest rates had been increased/decreased by 200 basis points in respect of bank and other borrowings and all other variables were held constant, the Group's profit for the year would not be affected as interest expenses would be fully capitalised (2009: Nil).

In addition, if interest rate had been increase/decrease of 100 basis points in respect of bank deposits, with all other variables held constant, the Group's profit for the year would increase/decrease by approximately RMB73,973,000 (2009: RMB51,012,000) for the years ended December 31, 2010.

Foreign currency risk management

The Group collects all of its revenue in RMB and most of the expenditures including expenditures incurred in property sales as well as capital expenditures are also denominated in RMB.

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective reporting date are as follows:

| | <u>2010</u> | <u>2009</u> |
|--------------------|------------------|------------------|
| | RMB'000 | RMB'000 |
| Assets | | |
| USD | 69,040 | 1,020,637 |
| HKD | <u>361,272</u> | <u>2,077,520</u> |
| | | |
| | <u>2010</u> | <u>2009</u> |
| | RMB'000 | RMB'000 |
| Liabilities | | |
| HKD | <u>2,657,729</u> | <u>1,086,464</u> |

Foreign currency sensitivity analysis

The Group mainly exposes to foreign exchange fluctuation of USD and HKD against RMB.

The following table details of the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes bank borrowings as well as bank

balances and pledged bank deposits denominated in foreign currencies. A positive/(negative) number indicates an increase/(decrease) in profit for the year where the RMB strengthens against the relevant currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year.

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|----------------|-----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| USD | | |
| Profit for the year | <u>(3,452)</u> | <u>(51,032)</u> |
| HKD | | |
| Profit for the year | <u>114,823</u> | <u>(49,553)</u> |

Other price risks

The Group is exposed to equity price risks through its available-for-sale investments. However, the management considers that the Company's exposure to fluctuation in equity price is minimal.

e. Credit risk management

At each of the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities disclosed in note 36. In order to minimise the credit risk, the monitoring procedures are carried out to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade and other receivables and amounts due from related parties at the end of the reporting period. The amounts presented in the consolidated statement of financial position are net of allowances for bad and doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies or state-owned banks in the PRC.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings and amounts due from jointly controlled entities, the Group has no significant concentration of credit risk, in which exposure is spread over a number of counterparties and customers.

For properties that are presold but development has not been completed, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the purchase price of the individual property. If a purchaser defaults on the payment of its mortgage during the period of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. Under such circumstances, the Group is able to forfeit the sales deposit received and resell the repossessed properties. Therefore, the management considers the Group would likely recover any loss incurred arising from the guarantees. The management considers the credit risk exposure to financial guarantees provided to property purchasers is limited because the facilities are secured by the properties and the market price of the properties is higher than the guaranteed amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

f. Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and the flexibility through the use of borrowings. The directors of the Company closely monitor the liquidity position and expect to have adequate sources of funding to finance the Group's projects and operations.

The following table details the Company's expected remaining contractual maturity for its non-derivative financial liabilities based on agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

To the extent that interest flows are floating rate, the discounted amount is derived from existing at rates at the end of the reporting period.

| | Weighted average interest rate | Carrying amount at December 31, 2010 | 0-60 days | 61 to 180 days | 181 to 365 days | 1-2 years | 2-3 years | Over 3 years | Total undiscounted cash flows |
|--|--------------------------------|--------------------------------------|------------------|------------------|-------------------|------------------|------------------|------------------|-------------------------------|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-interest bearing | | 5,421,282 | 664,982 | 1,669,444 | 2,966,855 | 120,001 | — | — | 5,421,282 |
| Fixed interest rate instruments | 4.94% | 5,465,269 | 251,776 | 1,295,711 | 967,036 | 515,099 | 703,311 | 2,557,737 | 6,290,670 |
| Variable interest rate instruments | 5.33% | 11,859,090 | 116,416 | 182,896 | 917,497 | 4,709,923 | 6,850,655 | 463,068 | 13,240,455 |
| Financial guarantee contract | | 5,204,923 | — | — | 5,204,923 | — | — | — | 5,204,923 |
| | | <u>27,950,564</u> | <u>1,033,174</u> | <u>3,148,051</u> | <u>10,056,311</u> | <u>5,345,023</u> | <u>7,553,966</u> | <u>3,020,805</u> | <u>30,157,330</u> |

| | Weighted average interest rate | Carrying amount at December 31, 2009 | 0-60 days | 61 to 180 days | 181 to 365 days | 1-2 years | 2-3 years | Over 3 years | Total undiscounted cash flows |
|--|--------------------------------|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------------------|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-interest bearing | | 2,890,739 | 910,669 | 267,035 | 1,593,035 | 120,000 | — | — | 2,890,739 |
| Fixed interest rate instruments | 5.15% | 2,869,405 | 9,171 | 143,175 | 568,489 | 382,968 | 738,825 | 1,681,400 | 3,524,028 |
| Variable interest rate instruments | 5.61% | 6,896,100 | 351,756 | 2,143,766 | 903,307 | 1,767,858 | 2,206,317 | — | 7,373,004 |
| Financial guarantee contract | | 2,686,846 | — | — | 2,686,846 | — | — | — | 2,686,846 |
| | | <u>15,343,090</u> | <u>1,271,596</u> | <u>2,553,976</u> | <u>5,751,677</u> | <u>2,270,826</u> | <u>2,945,142</u> | <u>1,681,400</u> | <u>16,474,617</u> |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

g. Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial guarantee contracts on initial recognition is determined based on the present value of expected payments when default, where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Except for the bond with fair value disclosed in note 28, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial positions approximate their respective fair values at the end of the reporting period.

41. PARTICULARS OF THE SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries, jointly controlled entities and associates at December 31, 2010 and 2009 are as follows:

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|--|--|---|-------|---|--------------------|---|
| | | 2010 | 2009 | | | |
| Subsidiary | | | | | | |
| Beijing Dezhuo Trade Company Limited (note a) 北京德卓貿易有限公司 | PRC | 93.5% | 93.5% | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Trading of construction materials |
| Beijing Huicheng Investment Limited (note b) 北京匯晟投資有限公司 | PRC | 91.3% | 91.3% | Registered RMB10,000,000 Paid up capital RMB10,000,000 | PRC | Properties development |
| Beijing Longhu Chengheng Decoration Company Limited (note a) 北京龍湖成恒裝飾有限公司 | PRC | 91.3% | 91.3% | Registered RMB2,000,000 Paid up capital RMB2,000,000 | PRC | House decoration |
| Beijing Longhu Properties Company Limited (note b) 北京龍湖置業有限公司 | PRC | 89.9% | 89.9% | Registered RMB1,000,000,000 Paid up capital RMB1,000,000,000 | PRC | Properties development and provision of consultancy service |
| Beijing Longhu Property Service Company Limited (note a) 北京龍湖物業服務有限公司 | PRC | 90.0% | 90.0% | Registered RMB5,000,000 Paid up capital RMB5,000,000 | PRC | Properties management |
| Beijing Longhu Qinghua Property Company Limited (note b) 北京龍湖慶華置業有限公司 | PRC | 91.3% | 91.3% | Registered RMB500,000,000 Paid up capital RMB500,000,000 | PRC | Properties development |
| Beijing Longhu Shidai Properties Company Limited (note a) 北京龍湖時代置業有限公司 | PRC | 91.3% | 91.3% | Registered RMB1,400,000,000 Paid up capital RMB1,400,000,000 | PRC | Properties development |
| Beijing Longhu Tianxing Properties Company Limited (note a) 北京龍湖天行置業有限公司 | PRC | 91.3% | 91.3% | Registered RMB600,000,000 Paid up capital RMB600,000,000 | PRC | Properties development |
| Beijing Longhu Zhongbai Properties Company Limited (note a) 北京龍湖中佰置業有限公司 | PRC | 91.3% | 91.3% | Registered RMB1,500,000,000 Paid up capital RMB1,500,000,000 | PRC | Properties development |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|---|--|---|--------|---|--------------------|---|
| | | 2010 | 2009 | | | |
| Beijing Mengke Properties Co., Ltd. (note a) 北京盟科置業有限公司 | PRC | 91.3% | 91.3% | Registered RMB600,000,000 Paid up capital RMB600,000,000 | PRC | Properties development and provision of consultancy service |
| Changzhou Jia'nan Properties Co., Ltd. (note a) 常州嘉南置業有限公司 | PRC | 93.4% | 85.1% | Registered RMB370,000,000 Paid up capital RMB370,000,000 | PRC | Properties development |
| Chengdu Beicheng Real Estate Company Limited (note b) 成都龍湖北城置業有限公司 | PRC | 95.6% | 95.6% | Registered RMB670,000,000 Paid up capital RMB670,000,000 | PRC | Properties development |
| Chengdu Jiaxun Investment Company Limited ("Chengdu Jiaxun") (note b) 成都佳遜投資有限公司 | PRC | 91.3% | 91.3% | Registered RMB30,000,000 Paid up capital RMB30,000,000 | PRC | Properties development |
| Chengdu Jinteng Trade Company Limited (note a) 成都錦騰貿易公司 | PRC | 93.5% | 93.5% | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Trading of construction materials |
| Chengdu Longhu Jinhua Real Estate Company Limited (note b) 成都龍湖錦華置業有限公司 | PRC | 94.2% | 86.2% | Registered RMB100,000,000 Paid up capital RMB100,000,000 | PRC | Properties development |
| Chengdu Longhu Property Services Company Limited (note a) 成都龍湖物業服務有限公司 | PRC | 91.04% | 91.04% | Registered RMB5,000,000 Paid up capital RMB5,000,000 | PRC | Properties management |
| Chengdu Longhu Tongjin Real Estate Company Limited (note b) 成都龍湖同晉置業有限公司 | PRC | 93.5% | 68.5% | Registered RMB966,549,865 Paid up capital RMB966,549,865 | PRC | Properties development |
| Chengdu Xixi Real Estate Company Limited (note a) 成都西壘置業有限公司 | PRC | 91.3% | 91.3% | Registered RMB335,660,000 Paid up capital RMB335,660,000 | PRC | Properties development |
| Chengdu Xixiang Real Estate Company Limited (note a) 成都西祥置業有限公司 | PRC | 91.3% | 91.3% | Registered RMB436,370,000 Paid up capital RMB436,370,000 | PRC | Properties development |
| Chengdu Yuanbo Gardening Co., Ltd (note a) 成都元博苗木有限公司 | PRC | 93.5% | 93.5% | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Nursery of seeding tree |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|--|--|---|--------|---|--------------------|---------------------------------------|
| | | 2010 | 2009 | | | |
| Chongqing Beilonghu Property Company Limited (note b) 重慶北龍湖置地發展有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB700,000,000 Paid up capital RMB700,000,000 | PRC | Properties development |
| Chongqing Henghong Investment Inc. (note b) 重慶恒弘投資有限公司 | PRC | 91.3% | 91.3% | Registered RMB10,000,000 Paid up capital RMB10,000,000 | PRC | Properties development |
| Chongqing Juntion Real Estate Development Inc. (note b) 重慶嘉遜地產開發有限公司 . . . | PRC | 93.5% | 93.5% | Registered RMB778,000,000 Paid up capital RMB778,000,000 | PRC | Properties development |
| Chongqing Longhu Chengheng Real Estate Development Inc. (note a) 重慶龍湖成恒地產發展有限公司. | PRC | 91.3% | 91.3% | Registered RMB1,000,000,000 Paid up capital RMB1,000,000,000 | PRC | Properties development |
| Chongqing Longhu Development Company Limited (note b) 重慶龍湖企業拓展有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB1,308,000,000 Paid up capital RMB1,214,214,000 | PRC | Properties development and investment |
| Chongqing Longhu Hengshang Real Estate Company Limited (note a) 重慶龍湖恒尚地產發展有限公司. | PRC | 91.3% | 91.3% | Registered RMB30,000,000 Paid up capital RMB30,000,000 | PRC | Properties development |
| Chongqing Longhu Kaian Real Estate Development Co., Ltd. (note b) 重慶龍湖凱安地產發展有限公司. | PRC | 95.6% | 95.6% | Registered RMB1,278,000,000 Paid up capital RMB1,278,000,000 | PRC | Properties development |
| Chongqing Longhu Properties Company Limited (note b) 重慶龍湖地產發展有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB1,544,912,450 Paid up capital RMB1,544,912,450 | PRC | Properties development and investment |
| Chongqing Longhu Xijie Real Estate Company Limited (note a) 重慶龍湖西街置業有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB624,000,000 Paid up capital RMB624,000,000 | PRC | Properties development and investment |
| Chongqing Longhu Yiheng Estate Development Co., Ltd. (note b) 重慶龍湖宜恒地產發展有限公司. | PRC | 46.6%* | 46.6%* | Registered RMB360,000,000 Paid up capital RMB360,000,000 | PRC | Properties development |
| Chongqing Rongkai Industrial Company Limited (note b) 重慶融凱實業有限公司 | PRC | 93.5% | 93.5% | Registered RMB698,000,000 Paid up capital RMB698,000,000 | PRC | Properties development |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|---|--|---|-------|---|--------------------|-----------------------------------|
| | | 2010 | 2009 | | | |
| Chongqing Tianzhuo Investment Company Limited (note a) 重慶天卓投資有限公司 | PRC | 93.5% | 93.5% | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Properties development |
| Chongqing Tianlang Agriculture Development Company Limited (note a) 重慶天朗農業發展有限公司 | PRC | 93.5% | 93.5% | Registered RMB10,000,000 Paid up capital RMB10,000,000 | PRC | Nursery of seeding tree |
| Chongqing Xinlonghu Properties Services Company Limited (note a) 重慶新龍湖物業服務有限公司 | PRC | 91.3% | 91.3% | Registered RMB5,000,000 Paid up capital RMB5,000,000 | PRC | Properties management |
| Hangzhou Longhu Real Estate Development Co., Ltd. (note c) 杭州龍湖房地產開發有限公司 | PRC | 100% | 100% | Registered USD149,400,000 Paid up capital USD149,400,000 | PRC | Properties development |
| Shanghai Hengchi Real Estate Company Limited (note a) 上海恒馳房地產有限公司 | PRC | 93.5% | 93.5% | Registered RMB1,000,000,000 Paid up capital RMB1,000,000,000 | PRC | Properties development |
| Shanghai Longhu Property Management Company Limited (note a) 上海龍湖物業管理有限公司 | PRC | 91.3% | 91.3% | Registered RMB5,000,000 Paid up capital RMB5,000,000 | PRC | Properties management |
| Shanghai Longhu Real Estate Co. Ltd. (note a) 上海龍湖置業發展有限公司 | PRC | 91.3% | 91.3% | Registered RMB100,000,000 Paid up capital RMB100,000,000 | PRC | Properties development |
| Shanghai Xinrun Garden Virescence Company Limited (note a) 上海莘潤園林綠化有限公司 | PRC | 93.5% | 93.5% | Registered RMB12,000,000 Paid up capital RMB12,000,000 | PRC | Nursery of seeding tree |
| Shanghai Yujiu Industrial Company Limited (note b) 上海渝久實業有限公司 | PRC | 93.5% | 93.5% | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Trading of construction materials |
| Shenyang Longhu Estate Development Co., Ltd. (note b) 瀋陽龍湖房地產拓展有限公司 | PRC | 98.5% | 98.5% | Registered USD65,000,000 Paid up capital USD65,000,000 | PRC | Properties development |
| Sichuan Longhu Real Estate Development Company Limited (note b) 四川龍湖地產發展有限公司 | PRC | 93.5% | 85.5% | Registered RMB50,000,000 Paid up capital RMB50,000,000 | PRC | Properties development |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|--|--|---|-------|---|-----------------------|---|
| | | 2010 | 2009 | | | |
| Xi'an Longhu Jincheng Company Limited (note a) 西安龍湖錦城置業有限公司 . . . | PRC | 91.3% | 90.7% | Registered RMB430,000,000 Paid up capital RMB430,000,000 | PRC | Properties development |
| Xi'an Longhu Property Service Company Limited (note a) 西安龍湖物業服務有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB3,000,000 Paid up capital RMB3,000,000 | PRC | Properties development |
| Xi'an Longhu Real Estate Inc. (note a) 西安龍湖地產發展有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB50,000,000 Paid up capital RMB50,000,000 | PRC | Properties development |
| Xi'an Longhu Xingcheng Estate Co. Ltd. (note a) 西安龍湖興城置業有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB219,610,000 Paid up capital RMB219,610,000 | PRC | Properties development |
| Xi'an Yeheng Industrial Company Limited (note a) 西安業恒實業有限公司 | PRC | 93.5% | 93.5% | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Trading of construction materials |
| Wuxi Longhu Real Estate Inc. (note a) 無錫龍湖置業有限公司 | PRC | 91.3% | 91.3% | Registered RMB615,200,000 Paid up capital RMB615,200,000 | PRC | Properties development |
| Jasmine Spread Investment Limited | The British Virgin Islands (the "BVI") | 100% | 100% | Authorised USD50,000 Paid up capital USD2 | HK | Investment holding |
| Join Dragon Limited | BVI | 100% | 100% | Authorised USD50,000 Paid up capital USD2 | HK | Investment holding |
| Longfor Investment Company Limited | BVI | 100% | 100% | Authorised USD1 Paid up capital USD1 | HK | Investment holding |
| Silver Oak Enterprises Limited . . . | BVI | 100% | 100% | Authorised USD50,000 Paid up capital USD2 | HK | Investment holding |
| Fortune Glister Development Limited 富煌發展有限公司 | Hong Kong ("HK") | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|--|--|---|----------|---|--------------------|------------------------|
| | | 2010 | 2009 | | | |
| Joy Wealth Trading Limited 寶欣貿易有限公司 | HK | 91.3% | 91.3% | Authorised HKD100,000,000 Paid up capital HKD69,687,000 | HK | Investment holding |
| Joyline Corporation Limited 順嘉有限公司 | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Juntion Development Hong Kong (Holding) Limited 嘉遜發展香港(控股)有限公司 | HK | 100% | 100% | Authorised HK\$2,000,000 Paid up capital HK\$2,000,000 | HK | Investment holding |
| Longfor Company Limited | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Treasure State Limited 定邦有限公司 | HK | 100% | 100% | Registered HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Jointly Controlled Entity | | | | | | |
| Chengdu Huixin Real Estate Company Limited (“Chengdu Huixin”) (note d) 成都匯新置業有限公司 | PRC | 59.2%#+ | 59.2%#+ | Registered RMB629,993,500 Paid up capital RMB629,993,500 | PRC | Properties development |
| Chengdu Jia’nan Real Estate Company Limited (“Chengdu Jia’nan”) (note d) 成都嘉南置業有限公司 | PRC | 47.7% #+ | 47.7% #+ | Registered RMB382,890,100 Paid up capital RMB382,890,100 | PRC | Properties development |
| Chengdu Jinghui Real Estate Company Limited (“Chengdu Jinghui”) (note d) 成都景匯置業有限公司 | PRC | 46.2%#+ | 46.2%#+ | Registered RMB653,275,800 Paid up capital RMB653,275,800 | PRC | Properties development |
| Chengdu Tuo Cheng Real Estate Company Limited (“Chengdu Tuo Cheng”) (note d) 成都拓晟置業有限公司 | PRC | 46.2%#+ | 46.2%#+ | Registered RMB633,495,100 Paid up capital RMB633,495,100 | PRC | Properties development |
| Longhu Land Limited (note d) 重慶興龍湖置地發展有限公司 | PRC | 50%# | 50%# | Registered USD27,000,000 Paid up capital USD27,000,000 | PRC | Properties development |
| Shanghai Hengrui Real Estate Company Limited (note d) 上海恒睿房地產有限公司 | PRC | 45.7%# | 45.7%# | Registered RMB1,589,000,000 Paid up capital RMB1,589,000,000 | PRC | Properties development |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|---|--|---|--------|--|--------------------|--------------------------------|
| | | 2010 | 2009 | | | |
| Northpole Intermediary Limited ("Northpole") | Cayman Islands | 44.4%# | 44.4%# | Registered USD200 Paid up capital USD200 | Cayman Islands | Investment holding |
| Top Grand International Enterprise Limited 高宏國際企業有限公司 | HK | 50%# | 100% | Registered HKD10,000 Paid up capital HKD10,000 | HK | Investment holding |
| Associate | | | | | | |
| Ar Ke Er (note e) 埃克爾空調技術(無錫)有限公司. | PRC | 20% | 20% | Registered USD1,250,000 Paid up capital USD100 | PRC | Production of air conditioning |
| Jiaxun Land (China) Company Limited 嘉遜置地(中國)有限公司 (Formerly known as Easeridge Investments Limited). | BVI | 47.4% | 47.4% | Authorised USD50,000 Paid up capital USD100 | HK | Investment holding |

Notes:

- (a) The subsidiary is a domestic wholly-owned enterprise established in the PRC.
- (b) The subsidiary is an equity joint venture established in the PRC.
- (c) The subsidiary is a wholly foreign owned enterprise established in the PRC.
- (d) The jointly controlled entity is an equity joint venture established in the PRC.
- (e) The associate is a wholly foreign owned enterprise established in the PRC.

None of the subsidiaries had issued any debt securities at December 31, 2010, except for Chongqing Longhu Development Company Limited which has issued RMB1,400 million bonds, in which the Group has no interest.

* This company is subsidiary held by Chongqing Longhu Development, a subsidiary in which the Company has 91.3% equity interest at December 31, 2010 and 2009. This company is indirectly controlled subsidiary of the Company. Therefore, the Company could exercise the control over this company through Chongqing Longhu Development, though the effective beneficial interests attributable to the Company in this company are calculated at less than 50% based on the effective interest holding percentage.

These companies were accounted for as jointly controlled entities as at respective period end date as in accordance with the memorandum and the articles of the companies, major financial and operating policies of these companies required the unanimous consent of all the directors.

+ The interests of Chengdu Jia'nán, Chengdu Tuocheng, Chengdu Jinghui and Chengdu Huixin directly held by Chengdu Jiaxun and Northpole are 7.84%, 4.74%, 4.50% and 32.05% and 92.16%, 95.26%, 95.41% and 67.95% respectively. Pursuant to the relevant joint venture agreements, the Group is entitled to share 49.13% of profit of these jointly controlled entities and major financial and operating policies of these companies required the unanimous consent of all joint venture partners.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF LONGFOR PROPERTIES CO. LTD.
龍湖地產有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Longfor Properties Co. Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages F-61 to F-119, which comprise the Group’s consolidated statement of financial position as at December 31, 2009, and its consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Group’s preparation and the true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
April 12, 2010

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009**

| | NOTES | 2009 | 2008 |
|--|-------|--------------------|--------------------|
| | | RMB'000 | RMB'000 |
| Revenue | 5 | 11,373,962 | 4,475,199 |
| Cost of sales | | <u>(8,042,326)</u> | <u>(3,321,192)</u> |
| Gross profit | | 3,331,636 | 1,154,007 |
| Other income | 6 | 424,711 | 132,068 |
| Change in fair value of investment properties | | 920,945 | 125,100 |
| Selling and marketing expenses | | (314,119) | (323,910) |
| Administrative expenses | | (410,632) | (408,286) |
| Finance costs | 7 | (27,499) | (61,525) |
| Share of results of jointly controlled entities | | <u>135,998</u> | <u>63,225</u> |
| Profit before taxation | | 4,061,040 | 680,679 |
| Income tax expense | 8 | <u>(1,568,581)</u> | <u>(281,198)</u> |
| Profit for the year and total comprehensive income for the year | 9 | <u>2,492,459</u> | <u>399,481</u> |
| Attributable to: | | | |
| Owners of the Company | | 2,209,207 | 331,590 |
| Minority interests | | <u>283,252</u> | <u>67,891</u> |
| | | <u>2,492,459</u> | <u>399,481</u> |
| Earnings per share, in RMB cents | | | |
| Basic | 12 | <u>53.5</u> | <u>8.3</u> |
| Diluted | 12 | <u>53.2</u> | <u>N/A</u> |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2009**

| | NOTES | 2009 | 2008 |
|---|-------|-------------------|-------------------|
| | | RMB'000 | RMB'000 |
| NON-CURRENT ASSETS | | | |
| Investment properties | 13 | 4,698,300 | 3,759,100 |
| Property, plant and equipment | 14 | 171,861 | 166,976 |
| Properties under development | 15 | — | 10,701 |
| Prepaid lease payments | 16 | 3,194,207 | 3,026,288 |
| Interests in associates | 17 | 1 | 1 |
| Interests in jointly controlled entities | 18 | 2,373,834 | 932,468 |
| Available-for-sale investments | 19 | 8,600 | 8,600 |
| Deposits paid for acquisition of land use rights | | 3,264,561 | 845,780 |
| Deposits paid for acquisition of additional interest in a subsidiary | | 34,000 | — |
| Deferred taxation assets | 29 | 227,702 | 347,960 |
| Amount due from a minority shareholder | 39(e) | — | 12,490 |
| | | <u>13,973,066</u> | <u>9,110,364</u> |
| CURRENT ASSETS | | | |
| Inventories | 20 | 301,048 | 138,652 |
| Properties under development for sales | 15 | 18,312,478 | 14,880,070 |
| Properties held for sales | 21 | 1,008,296 | 2,582,592 |
| Accounts and other receivables, deposits and prepayments | 22 | 1,382,897 | 1,611,597 |
| Amounts due from jointly controlled entities | 23 | 35,271 | 107,094 |
| Taxation recoverable | | 134,265 | 131,722 |
| Pledged bank deposits | 24 | 496,208 | 605,379 |
| Bank balances and cash | 24 | 6,801,573 | 3,228,797 |
| | | <u>28,472,036</u> | <u>23,285,903</u> |

| | NOTES | 2009 | 2008 |
|---|-------|-------------------|-------------------|
| | | RMB'000 | RMB'000 |
| CURRENT LIABILITIES | | | |
| Accounts payable, deposits received and accrued charges | 25 | 16,362,320 | 13,843,721 |
| Amounts due to jointly controlled entities | 26 | 363,879 | 19,957 |
| Amounts due to directors | 26 | — | 81,590 |
| Taxation payable | | 1,616,029 | 935,528 |
| Bank and other borrowings - due within one year | 27 | 3,710,200 | 6,480,051 |
| | | <u>22,052,428</u> | <u>21,360,847</u> |
| NET CURRENT ASSETS | | <u>6,419,608</u> | <u>1,925,056</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>20,392,674</u> | <u>11,035,420</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 28 | 452,972 | 351,668 |
| Reserves | | <u>11,685,706</u> | <u>2,770,893</u> |
| Equity attributable to owners of the Company | | 12,138,678 | 3,122,561 |
| Minority interests | | <u>1,099,884</u> | <u>821,673</u> |
| TOTAL EQUITY | | <u>13,238,562</u> | <u>3,944,234</u> |
| NON-CURRENT LIABILITIES | | | |
| Bank and other borrowings - due after one year | 27 | 6,055,305 | 6,359,700 |
| Deferred taxation liabilities | 29 | <u>1,098,807</u> | <u>731,486</u> |
| | | <u>7,154,112</u> | <u>7,091,186</u> |
| | | <u>20,392,674</u> | <u>11,035,420</u> |

The consolidated financial statements on pages F-61 to F-119 were approved and authorised for issue by the Board of Directors on April 12, 2010 and are signed on its behalf by:

DIRECTOR

DIRECTOR

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009**

| | Attributable to owners of the Company | | | | | | | | | | | |
|--|---------------------------------------|---------------|-----------------|-----------------|---------------------------|------------------|----------------------|------------------------------|------------------|------------|--------------------|------------|
| | Share capital | Share premium | Capital reserve | Special reserve | Statutory surplus reserve | Exchange reserve | Share option reserve | Capital contribution reserve | Retained profits | Total | Minority interests | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At January 1, 2008 | 2,125 | — | 215 | 620,672 | 52,176 | (1,654) | 1,000 | 4,043 | 2,190,663 | 2,869,240 | 1,259,228 | 4,128,468 |
| Profit and total comprehensive income for the year | — | — | — | — | — | — | — | — | 331,590 | 331,590 | 67,891 | 399,481 |
| Capital injection from minority shareholders | — | — | — | — | — | — | — | — | — | — | 13,000 | 13,000 |
| Recognition of equity-settled share-based payments | — | — | — | — | — | — | 12,513 | 47,626 | — | 60,139 | — | 60,139 |
| Dividend recognised as distribution | — | — | — | — | — | — | — | — | (138,408) | (138,408) | — | (138,408) |
| Acquisition of additional interests in subsidiaries | — | — | — | — | — | — | — | — | — | — | (518,446) | (518,446) |
| Increase in share capital of the Company upon reorganisation | 349,543 | — | (349,543) | — | 79,137 | — | — | — | (79,137) | — | — | — |
| Appropriations to reserve | — | — | — | — | — | — | — | — | — | — | — | — |
| At December 31, 2008 | 351,668 | — | (349,328) | 620,672 | 131,313 | (1,654) | 13,513 | 51,669 | 2,304,708 | 3,122,561 | 821,673 | 3,944,234 |
| Profit and total comprehensive income for the year | — | — | — | — | — | — | — | — | 2,209,207 | 2,209,207 | 283,252 | 2,492,459 |
| Capital injection from minority shareholders | — | — | — | — | — | — | — | — | — | — | 35,000 | 35,000 |
| Recognition of equity-settled share-based payments | — | — | — | — | — | — | 13,371 | 39,861 | — | 53,232 | — | 53,232 |
| Dividend paid to minority interests | — | — | — | — | — | — | — | — | — | — | (9,541) | (9,541) |
| Acquisition of additional interest in a subsidiary | — | — | — | — | — | — | — | — | — | — | (30,500) | (30,500) |
| Dividend recognised as distribution | — | — | (88,120) | — | — | — | — | — | — | (88,120) | — | (88,120) |
| Issue of ordinary shares pursuant to initial public offering | 101,304 | 7,060,854 | — | — | — | — | — | — | — | 7,162,158 | — | 7,162,158 |
| Transaction costs attributable to issue of new ordinary shares | — | (320,360) | — | — | — | — | — | — | — | (320,360) | — | (320,360) |
| Appropriations to reserve | — | — | — | — | 124,212 | — | — | — | (124,212) | — | — | — |
| At December 31, 2009 | 452,972 | 6,740,494 | (437,448) | 620,672 | 255,525 | (1,654) | 26,884 | 91,530 | 4,389,703 | 12,138,678 | 1,099,884 | 13,238,562 |

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009**

| | <u>2009</u> | <u>2008</u> |
|---|-------------------------|------------------------|
| | RMB'000 | RMB'000 |
| OPERATING ACTIVITIES | | |
| Profit before taxation | 4,061,040 | 680,679 |
| Adjustments for: | | |
| Finance costs | 27,499 | 61,525 |
| Write down of inventories | — | 1,094 |
| Bad debt recovery | (16,000) | — |
| (Reversal of) impairment loss on other receivables | (5,000) | 31,109 |
| Depreciation of property, plant and equipment | 21,863 | 16,884 |
| Imputed interest income of amount due from a minority shareholder | — | (1,337) |
| Increase in fair value of investment properties | (920,945) | (125,100) |
| Share of results of jointly controlled entities | (135,998) | (63,225) |
| Gain on disposal of property, plant and equipment | (33) | (77) |
| Excess compensation received from primary development project | (306,000) | — |
| Loss on disposal of a subsidiary | 10,533 | 5,787 |
| Gain on disposal of partial interest in a jointly controlled entity | — | (36,774) |
| Interest income | (47,620) | (33,388) |
| Dividend income from available-for-sale investments, unlisted | (685) | (847) |
| Share-based payments expenses | <u>53,232</u> | <u>60,139</u> |
| Operating cash flows before movements in working capital | 2,741,886 | 596,469 |
| Increase in inventories | (162,396) | (92,928) |
| Decrease (increase) in properties under development and properties held for sales | 958,187 | (4,590,814) |
| Decrease (increase) in accounts and other receivables, deposits and prepayments | 365,193 | (414,134) |
| Decrease in amounts due from related parties | 71,823 | 40,017 |
| Increase in accounts payable, deposits received and accrued charges | <u>2,271,485</u> | <u>4,697,603</u> |
| Cash from operations | 6,246,178 | 236,213 |
| PRC income tax paid | <u>(400,386)</u> | <u>(272,905)</u> |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | <u>5,845,792</u> | <u>(36,692)</u> |

| | NOTES | 2009 | 2008 |
|---|-------|--------------------|--------------------|
| | | RMB'000 | RMB'000 |
| INVESTING ACTIVITIES | | | |
| Additions to prepaid lease payments | | (1,411,125) | (2,232,949) |
| Additions to investment properties | | (23,745) | — |
| Deposits paid for acquisition of land use rights | | (3,212,781) | (302,292) |
| Deposits paid for acquisition of subsidiaries | | (34,000) | — |
| Refund of deposit paid for acquisition of land use rights | | — | 365,650 |
| Acquisition of assets and assumption of liabilities through acquisition of subsidiaries/settlement of consideration payable | 30 | (507,250) | (190,664) |
| Acquisition of additional interest in jointly controlled entities | | (537,796) | (56,231) |
| Acquisition of a jointly controlled entity | | (1,037,018) | — |
| Dividend received from a jointly controlled entity | | 40,263 | — |
| Additions to properties under development | | — | (10,701) |
| Decrease (increase) in pledged bank deposits | | 109,171 | (418,133) |
| Purchase of property, plant and equipment | | (13,644) | (27,731) |
| Acquisition of additional interest in subsidiaries/ settlement of consideration | | (55,500) | (508,554) |
| Interest received | | 47,620 | 28,145 |
| Net cash inflow (outflow) on disposal of subsidiaries . . | 32 | 56,691 | (2,616) |
| Proceeds from disposal of partial interest in a jointly controlled entity | | — | 196,105 |
| Proceeds from disposal of property, plant and equipment | | 4,559 | 1,437 |
| Proceeds from disposal of investment properties | | 5,490 | — |
| Compensation received from primary development project | | 1,100,000 | — |
| Dividend received from available-for-sale investments . . | | 685 | 847 |
| Proceeds from disposal of investment in a trust fund . . . | | — | 80,106 |
| NET CASH USED IN INVESTING ACTIVITIES | | <u>(5,468,380)</u> | <u>(3,077,581)</u> |

| NOTES | 2009 | 2008 |
|--|--------------------------------|--------------------------------|
| | RMB'000 | RMB'000 |
| FINANCING ACTIVITIES | | |
| Repayment of bank and other loans | (9,250,051) | (3,680,948) |
| Interest paid | (590,595) | (812,409) |
| New bank and other loans raised | 4,609,610 | 8,592,249 |
| Proceeds from issuance of a bond | 1,384,931 | — |
| Capital injected from minority shareholders | 35,000 | 13,000 |
| Advances from jointly controlled entities | 343,922 | 6,406 |
| Advance from (repayment to) a minority shareholder | — | (19,306) |
| Repayments to directors | (81,590) | (27,658) |
| Net proceeds from issue of shares | 7,162,158 | — |
| Share issue expenses | (320,360) | — |
| Dividend paid to minority shareholders | (9,541) | — |
| Dividend paid | (88,120) | (65,882) |
| NET CASH FROM FINANCING ACTIVITIES | <u>3,195,364</u> | <u>4,005,452</u> |
| NET INCREASE IN CASH AND CASH | | |
| EQUIVALENTS | 3,572,776 | 891,179 |
| CASH AND CASH EQUIVALENTS AT THE | | |
| BEGINNING OF THE YEAR | <u>3,228,797</u> | <u>2,337,618</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF | | |
| THE YEAR | <u><u>6,801,573</u></u> | <u><u>3,228,797</u></u> |
| ANALYSIS OF THE BALANCES OF CASH AND | | |
| CASH EQUIVALENTS | | |
| Bank balances and cash | <u><u>6,801,573</u></u> | <u><u>3,228,797</u></u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

1. GENERAL

The Company was incorporated on December 21, 2007 as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “SEHK”) from November 19, 2009. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The addresses of the principal place of business of the Company in the People’s Republic of China (the “PRC”) and Hong Kong are 7/F, Tower 2, FuSheng Building, No. 4 Huixin East Street, Chaoyang District, Beijing, and 15/F, 1 Duddell Street, Central, Hong Kong, respectively.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) in preparation for the listing of the Company’s shares on the SEHK, which was completed by interspersing the Company and Longfor Investment Co. Ltd. (“Longfor Investment”) between Juntion Development Hong Kong (Holding) Limited (“Juntion Development”) and certain companies under the control of the ultimate shareholders Madam Wu Yajun and Mr. Cai Kui. The Company became the holding company of the companies now comprising the Group on June 11, 2008.

Charm Talent International Limited (“Charm Talent”) is the Company’s immediate holding company for the period from January 1, 2008 to November 18, 2009. Charm Talent and Silver Sea Assets Limited are the Company’s ultimate holding company for the period from January 1, 2008 to June 10, 2008 and June 11, 2008 to November 18, 2009 respectively. The Company’s ultimate controlling shareholders are Madam Wu Yajun and Mr. Cai Kui for the period from January 1, 2008 to June 10, 2008. The ultimate parent undertaking of the Company is the HSBC International Trustee Limited, which is trustee of the Wu Family Trust and the Cai Family Trust from June 11, 2008 to December 31, 2009. The principal place of business of the trustee of Wu Family Trust and Cai Family Trust is Level 13, 1 Queen’s Road Central Hong Kong.

Details of the Group Reorganisation are set out in the prospectus dated November 6, 2009. The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity.

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2008 which include the results, changes in equity and cash flows of the companies now comprising the Group have been prepared as if the current group structure had been in existence throughout the year, or since their respective dates of incorporation/establishment where it is a shorter period.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 42.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the functional currency of the Company and its major subsidiaries.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The Group has applied all the standards, amendments and interpretations issued by the International Accounting Standards Board, which are effective for the Group’s financial year beginning January 1, 2009.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but not yet effective.

| | |
|--------------------|--|
| IFRSs (Amendments) | Amendment to IFRS 5 as part of Improvements to IFRSs May 2008 ¹ |
| IFRSs (Amendments) | Improvements to IFRSs April 2009 ² |
| IAS 24 (Revised) | Related Party Disclosures ³ |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements ¹ |
| IAS 32 (Amendment) | Classification of Rights Issues ⁷ |
| IAS 39 (Amendment) | Eligible Hedged Items ¹ |
| IFRS 1 (Amendment) | Additional Exemptions for First-time Adopters ⁴ |
| IFRS 1 (Amendment) | Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters ⁶ |
| IFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions ⁴ |

| | |
|----------------------|--|
| IFRS 3 (Revised) | Business Combinations ¹ |
| IFRS 9 | Financial Instruments ⁵ |
| IFRIC 14 (Amendment) | Prepayments of a Minimum Funding Requirement ³ |
| IFRIC 17 | Distributions of Non-cash Assets to Owners ¹ |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments ⁶ |

¹ Effective for annual periods beginning on or after July 1, 2009

² Amendments that are effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate

³ Effective for annual periods beginning on or after January 1, 2011

⁴ Effective for annual periods beginning on or after January 1, 2010

⁵ Effective for annual periods beginning on or after January 1, 2013

⁶ Effective for annual periods beginning on or after July 1, 2010

⁷ Effective for annual periods beginning on or after February 1, 2010

The adoption of IFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after January 1, 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

IFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for the investment properties which is measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the SEHK and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year, except for those acquired pursuant to the Group Reorganisation, are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses, except for those acquired pursuant to the Group Reorganisation, is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less impairment loss and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Acquisition of additional interests in subsidiaries

On acquisition of additional interests in subsidiaries which are regarded as acquisition of additional interests in assets and liabilities as the subsidiaries are not business, the difference between the consideration and the carrying values of the underlying assets and liabilities attributable to the additional interests acquired is added to or deducted from the carrying values of the relevant assets, where appropriate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and installments received from purchasers prior to meeting the above criteria of revenue recognition are included in the consolidated statement of financial position under current liabilities.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Property management and related service fees are recognised in the period in which the services are rendered.

Other service income is recognised when the services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Property under construction or development for future use as an investment property is classified as investment property under development. If the fair value cannot be reliably determined, the investment property under development will be measured at cost until such time as fair value can be determined or development is completed, in which time any difference between the fair value and the carrying amount will be recognised in profit or loss in that period.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and any accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives after taking into account of their estimated residual values, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortization charge provided for the leasehold land is included as part of the costs of the properties under development. Properties under development not for sale are carried at cost, less any identified impairment losses. Properties under development which are intended to be held for own use or their investment potential are shown as non-current assets.

Prepaid lease payments

The prepaid lease payments represent upfront payments for land use rights and are initially recognised at cost and released to profit or loss over the lease term on a straight-line basis, except for those that are classified and accounted for as properties under development intended to be held for sale.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its

interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Investments in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Properties under development for sales

Properties under development which are intended to be sold upon completion of development are classified as current assets, and carried at the lower of cost, which include the related land cost, and net realisable value.

Properties held for sales

Properties held for sales are stated at the lower of cost and net realisable value. Cost includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalised. Net realised value is determined based on prevailing market conditions.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition or issue of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables or available-for-sale financial assets.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including amount due from a minority shareholder, accounts and other receivables, amounts due from jointly controlled entities, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as accounts receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an account and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees, points paid and received that form an integral part of the effective rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities (including accounts payable, amounts due to jointly controlled entities, amounts due to directors and bank and other borrowings) are subsequently measured at amortised cost using effective interest method.

Equity instruments

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 “Revenue”.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at end of the reporting period. Profit and loss and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in other comprehensive income and accumulated in equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the year in which a foreign operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred taxation liabilities are generally recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the

temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred taxation assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxation assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred taxation liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options/share awards to employees

The fair value of services received determined by reference to the fair value of share options or shares granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity.

At the end of the reporting period, the Group revises its estimates of the number of options or shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, a correspondence adjustment to reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

For any modification to the terms and conditions of share options granted, the incremental fair value granted is determined at the difference between the fair value of the modified share options and that of the original share options, both estimated as at the date of the modification.

If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified share options vest, in addition to the amount based on the grant date fair value of the original share options, which is recognised over the remainder of the original vesting period.

If the modification occurs after vesting date, the incremental fair value granted is recognised in profit or loss immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Investment properties

Investment properties are stated at fair values based on the valuation performed by independent professional valuers. In determining the fair values, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in profit or loss.

Income tax expense

Deferred taxation assets of RMB227,702,000 (2008: RMB347,960,000) mainly in relation to tax losses, land appreciation tax provisions, allowance for doubtful debts, government grants, unrealised profit on intra-group purchases and others have been recognised at December 31, 2009, after offsetting certain deferred taxation liabilities as set out in note 29. The realisability of the deferred taxation assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. The directors of the Company determine the deferred taxation assets based on the enacted or substantially enacted tax rates and the best knowledge of profit projections of the Group for coming years during which the deferred taxation assets are expected to be utilised. The directors of the Company will review the assumptions and profit projections by the end of the reporting period. In cases where the actual future profits generated are more or less than expected, an additional recognition or a reversal of deferred taxation assets may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes place.

Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain projects of the Group have not finalised their land appreciation tax calculations and payments with any local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of land appreciation and its related income tax provisions. The Group recognised the land appreciation tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and the related income tax provisions in the periods in which such tax is finalised with local tax authorities.

5. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the board of directors of the Company) in order to allocate resources to the segment and to assess its performance.

The Group is organised into business units based on their types of activities, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance. The Group's reportable segments under IFRS 8 are identified as three main operations:

- Property development: this segment develops and sells office premises, commercial and residential properties. All the Group's activities in this regard are carried out in the PRC.
- Property investment: this segment leases investment properties, which are developed by the Group to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently the Group's investment property portfolio is located entirely in the PRC.
- Property management and related services: this segment mainly represented the income generated from property management. Currently the group's activities in this regard are carried out in PRC.

(a) **Segment results, assets and liabilities**

For the purposes of assessing segment performance and allocating resources between segments, the Company's board of directors monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets directly attributable to each segment with the exception of interests in associates, interests in jointly controlled entities, available-for-sale investments, deferred taxation assets, taxation recoverable and other corporate assets. Other corporate assets are not allocated to the reportable segment because they are head office assets or assets which are managed centrally by the Group. The investment properties included in segment assets are stated at cost when assessed by the chief operating decision maker. Segment liabilities include trade payables and accrued expenditure on construction, bills payable, deposits received and receipt in advance from property sales, and other payables with exception of taxation payable, deferred taxation liabilities, bank and other borrowings and other corporate liabilities. Other corporate liabilities are not allocated to the reportable segment because they are head office liabilities or liabilities which are managed on group basis.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment profit does not include the Group's share of results arising from the activities of the Group's jointly controlled entities.

The measure used for reporting segment profit is adjusted earnings before interest, taxes, depreciation, change in fair value of investment properties and finance costs ("Adjusted Earnings"), where "interest" is regarded as including investment income and "depreciation" is regarded as including impairment losses on non-current assets. To arrive at Adjusted Earnings the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditor's remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning Adjusted Earnings, management is provided with segment information concerning revenue (including inter-segment sales), interest income and finance costs from borrowings managed directly by the segments, depreciation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar service.

Information regarding the Group's reportable segments is set out below.

| | Year ended December 31, 2009 | | | |
|--|-------------------------------------|--------------------------------|---|-------------------|
| | Property development | Property investment | Property management and related services | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue from external customers | 11,029,310 | 197,975 | 146,677 | 11,373,962 |
| Inter-segment revenue | — | — | 17,395 | 17,395 |
| Reportable segment revenue | <u>11,029,310</u> | <u>197,975</u> | <u>164,072</u> | <u>11,391,357</u> |
| Reportable segment profit (Adjusted Earnings) | <u>2,797,455</u> | <u>146,888</u> | <u>36,489</u> | <u>2,980,832</u> |
| Reportable segment assets | 27,457,370 | 2,196,888 | 5,477 | 29,659,735 |
| Reportable segment liabilities | <u>14,891,370</u> | <u>52,003</u> | <u>51,638</u> | <u>14,995,011</u> |

Year ended December 31, 2008

| | Property development | Property investment | Property management and related services | Total |
|--|-------------------------|------------------------|---|-------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue from external customers | 4,216,172 | 158,785 | 100,242 | 4,475,199 |
| Inter-segment revenue | — | — | 16,282 | 16,282 |
| Reportable segment revenue | <u>4,216,172</u> | <u>158,785</u> | <u>116,524</u> | <u>4,491,481</u> |
| Reportable segment profit (Adjusted Earnings) | <u>637,418</u> | <u>103,214</u> | <u>17,794</u> | <u>758,426</u> |
| Reportable segment assets | 22,387,387 | 2,307,636 | 19,138 | 24,714,161 |
| Reportable segment liabilities | <u>12,594,493</u> | <u>44,099</u> | <u>57,698</u> | <u>12,696,290</u> |

Other segment information

| | Property development | Property investment | Property management and related services | Total |
|---|-------------------------|------------------------|---|-----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Amounts included in the measure of segment assets: | | | | |
| 2009 | | | | |
| Additions to non-current assets (Note) | 4,623,906 | 23,745 | — | 4,647,651 |
| 2008 | | | | |
| Additions to non-current assets (Note) | 4,355,509 | — | — | 4,355,509 |

Note: Amounts include additions to investment properties, prepaid lease payment and deposits paid for acquisition of land use rights.

In addition to receiving segment information concerning segment profits, the chief operating decision maker is provided with information concerning the Group's consolidated amount of interests in associates and related share of results, interests in jointly controlled entities and related share of results, changes in fair value of investment properties, interest income from bank balances and depreciation which are not allocated to operating segments.

(b) **Reconciliations of reportable segment revenues, profit or loss, assets and liabilities**

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|
| | RMB'000 | RMB'000 |
| Revenue | | |
| Reportable segment revenue | 11,391,357 | 4,491,481 |
| Elimination of inter-segment revenue | <u>(17,395)</u> | <u>(16,282)</u> |
| Consolidated turnover | <u>11,373,962</u> | <u>4,475,199</u> |
| Profit | | |
| Reportable segment profit | 2,980,832 | 758,426 |
| Other income | 424,711 | 132,068 |
| Change in fair value of investment properties | 920,945 | 125,100 |
| Finance costs | (27,499) | (61,525) |
| Share of results of jointly controlled entities | 135,998 | 63,225 |
| Depreciation | (21,863) | (16,884) |
| Unallocated expenses | <u>(352,084)</u> | <u>(319,731)</u> |
| Consolidated profit before taxation | <u>4,061,040</u> | <u>680,679</u> |
| Assets | | |
| Reportable segment assets | 29,659,735 | 24,714,161 |
| Cumulative change in fair value of investment properties | 2,501,412 | 1,581,390 |
| Interests in associates | 1 | 1 |
| Interests in jointly controlled entities | 2,373,834 | 932,468 |
| Available-for-sales investments | 8,600 | 8,600 |
| Deferred taxation assets | 227,702 | 347,960 |
| Taxation recoverable | 134,265 | 131,722 |
| Unallocated head office and other assets | <u>7,539,553</u> | <u>4,679,965</u> |
| Consolidated total assets | <u>42,445,102</u> | <u>32,396,267</u> |
| Liabilities | | |
| Reportable segment liabilities | 14,995,011 | 12,696,290 |
| Taxation payable | 1,616,029 | 935,528 |
| Deferred taxation liabilities | 1,098,807 | 731,486 |
| Bank and other borrowings | 9,765,505 | 12,839,751 |
| Unallocated head office and other liabilities | <u>1,731,188</u> | <u>1,248,978</u> |
| Consolidated total liabilities | <u>29,206,540</u> | <u>28,452,033</u> |

(c) **Revenue from major product and services**

The following is an analysis of the Group's revenue from its properties sold, property invested and services provided:

| | <u>Year ended</u> | |
|---|-------------------|-------------------|
| | <u>31.12.2009</u> | <u>31.12.2008</u> |
| | RMB'000 | RMB'000 |
| Sales of properties | 11,029,310 | 4,216,172 |
| Leasing of properties | 197,975 | 158,785 |
| Provision of property management services | <u>146,677</u> | <u>100,242</u> |
| | <u>11,373,962</u> | <u>4,475,199</u> |

(d) **Geographic information**

The following table sets out information about the Group's revenue from external customers by cities in the PRC, based on the location at which the properties sold, property invested and services provided. Information about its non-current assets is analysed by geographical location of assets.

| | Revenues from external customers | | Non-current assets | |
|-----------------------------------|-------------------------------------|------------------|--------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Chongqing | 3,030,015 | 2,184,825 | 8,920,181 | 6,184,647 |
| Chengdu | 2,566,327 | 2,285,681 | 863,267 | 495,290 |
| Beijing | 5,090,778 | 4,693 | 576,056 | 219,710 |
| Other cities in the PRC | 686,842 | — | 3,377,260 | 1,841,667 |
| | <u>11,373,962</u> | <u>4,475,199</u> | <u>13,736,764</u> | <u>8,741,314</u> |

Note: Non-current assets excluded financial instruments and deferred taxation assets.

No revenue from transaction with single external customer is amounted to 10% or more of the Group's revenue.

6. OTHER INCOME

| | 2009 | 2008 |
|--|----------------|----------------|
| | RMB'000 | RMB'000 |
| Interest income | 47,620 | 28,145 |
| Interest income from investment in a trust fund | — | 5,243 |
| Imputed interest income of amount due from a minority shareholder | — | 1,337 |
| Consultancy fee income (Note 1) | 31,129 | 4,291 |
| Dividend income from available-for-sale investments, unlisted | 685 | 847 |
| Excess compensation received from primary development project (Note 2) | 306,000 | — |
| Gain on disposal of property, plant and equipment | 33 | 77 |
| Gain on disposal of partial interest in a jointly controlled entity (Note 3) . | — | 36,774 |
| Net exchange gain | 3,490 | 38,555 |
| Government subsidies | 5,406 | 5,532 |
| Sundry income | 30,348 | 11,267 |
| Total | <u>424,711</u> | <u>132,068</u> |

Notes:

1. It represents the design, decoration and consulting services related to real estate development provided by the Group to independent third parties in Beijing.
2. During the year ended December 31, 2006, the Group entered into a joint land renovation and development agreement with the government and paid deposits which aggregated to RMB794,000,000 totally as at December 31, 2008 (included in the deposits paid for acquisition of land use rights). On December 15, 2008, the Group entered into an agreement to terminate the joint land renovation and development as a result of change in the development plan of that region. Pursuant to the agreement of termination of the joint land renovation and development, the compensation from government (including the deposits paid by the Group) was RMB1,100,000,000. During the year ended December 31, 2009, the Group has received the full amount of the compensation. In the opinion of the directors of the Company, as the negotiation of termination and compensation was still in progress as at December 31, 2008, the compensation received only met the revenue recognition requirement of IAS 18 Revenue that "it is probable that the economic benefits associated with the transaction will flow to the entity" during the year ended December 31, 2009, the excess compensation received from primary development project was therefore recognised during the year ended December 31, 2009.

3. During the year ended December 31, 2008, the Group disposed of its 28.5% equity interest in a jointly controlled entity, Chengdu Huixin Real Estate Company Limited (“Chengdu Huixin”), at a cash consideration of approximately RMB196,105,000 which is determined with reference to the attributable registered capital of Chengdu Huixin. Gain on disposal amounting to approximately RMB36,774,000 was resulted.

7. FINANCE COSTS

| | <u>2009</u> | <u>2008</u> |
|--|-----------------|-----------------|
| | RMB'000 | RMB'000 |
| Interest on bank and other borrowings wholly repayable within five years | (611,115) | (814,722) |
| Less: Amount capitalised to properties under development | <u>583,616</u> | <u>753,197</u> |
| | <u>(27,499)</u> | <u>(61,525)</u> |

Borrowing costs capitalised arose on the general borrowing pool of the Group and were calculated by applying a capitalisation rate of 5.38% (2008: 7.44%) per annum for the year ended December 31, 2009, to expenditure on the qualifying assets.

8. INCOME TAX EXPENSE

| | <u>2009</u> | <u>2008</u> |
|---|--------------------|------------------|
| | RMB'000 | RMB'000 |
| PRC enterprise income tax: | | |
| Current income tax | (609,428) | (396,746) |
| Land appreciation tax (“LAT”) | <u>(468,916)</u> | <u>(55,478)</u> |
| | (1,078,344) | (452,224) |
| Deferred taxation (note 29) | | |
| Current year | <u>(490,237)</u> | <u>171,026</u> |
| | <u>(1,568,581)</u> | <u>(281,198)</u> |

No provision for taxation has been made as the Group’s income neither arises in, nor is derived from, Hong Kong.

Certain of the Group’s subsidiaries operating in the PRC are eligible for certain tax holidays and concessions and were exempted from PRC income taxes for the year.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008 onwards.

Pursuant to the relevant PRC corporate income tax rules and regulations, preferential corporate income tax rates have been granted to certain of the Group’s PRC subsidiaries which were established in western regions and engaged in the encouraged business. These companies are subject to a preferential rate of 15% from 2002 to 2010, subject to approval of the competent tax authority, if the annual income derived from the encouraged business is more than 70% of the annual total income. Approval has been obtained for the year.

The tax charge for the year can be reconciled to the profit before taxation per consolidated statement of comprehensive income as follows:

| | <u>2009</u> | <u>2008</u> |
|---|--------------------|------------------|
| | RMB'000 | RMB'000 |
| Profit before taxation | 4,061,040 | 680,679 |
| PRC enterprise income tax at 25% | (1,015,260) | (170,170) |
| Tax effect of share of results of jointly controlled entities | 34,000 | 15,806 |
| Tax effect of expenses not deductible for tax purposes (Note 1) | (73,653) | (50,835) |
| Tax effect of income not taxable for tax purposes | 698 | 9,730 |
| LAT | (468,916) | (55,478) |
| Tax effect of LAT | 117,229 | 23,156 |
| Tax effect of tax losses not recognised | (243) | (3,974) |
| Utilisation of tax loss previously not recognised | 68 | 129 |
| Utilisation of deductible temporary differences previously not recognised | — | 11,748 |
| Effect of tax exemption and concessionary rates granted to certain PRC subsidiaries | 20,194 | (376) |
| Effect of different tax rate of subsidiaries operating in other jurisdictions | — | (16,047) |
| Withholding tax on retained profits to be distributed (Note 2) | (123,771) | (44,887) |
| Others (note 3) | (58,927) | — |
| Tax charge for the year | <u>(1,568,581)</u> | <u>(281,198)</u> |

Notes:

1. The amount mainly comprises of the tax effect of non-deductible corporate expenses of the Group and the expenses of certain subsidiaries in excess of the allowable deduction limits in accordance with the relevant tax regulations.
2. In accordance to PRC tax circular (Guoshuifa [2008] 112) effective from January 1, 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to “non-resident” investors who do not have an establishment or place of business in the PRC. According to the “Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income” and Guoshuifa [2008]112, where the Hong Kong resident company directly owns at least 25% of the capital of the Mainland company, 5% dividend withholding tax rate is applicable. The amount represents the withholding income tax provided on the distributable profits arisen during the years ended December 31, 2009 and 2008 of certain PRC subsidiaries.
3. In accordance to the PRC tax circular (Guoshuifa [2009] No. 31) issued on March 6, 2009 and effective from January 1, 2008, the sales that were recognised by certain subsidiaries of the Group in 2008 and 2009 which were related to the pre-sale in 2007 had to use 33%, instead of 25% to provide the income tax expense. The amount represented the difference between the tax rate used to provide the income tax expense arise from the recognition of revenue in current year.

9. PROFIT FOR THE YEAR

| | 2009 | 2008 |
|--|----------------|----------------|
| | RMB'000 | RMB'000 |
| Profit for the year has been arrived at after charging (crediting): | | |
| Auditors' remuneration | 3,000 | 3,000 |
| Cost of property inventories included in cost of sales | 7,839,702 | 3,239,602 |
| Write down of property inventories included in cost of sales | — | 1,094 |
| Depreciation of property, plant and equipment | 21,863 | 16,884 |
| Gain on disposal of property, plant and equipment | (33) | (77) |
| Loss on disposal of subsidiary | 10,533 | 5,787 |
| Bad debt recovery | (16,000) | — |
| (Reverse of) impairment loss on other receivables | (5,000) | 31,109 |
| Operating lease rentals | 14,458 | 9,100 |
| Staff costs | | |
| Directors' emoluments (including equity- settled share-based payments) (note 10) | 44,850 | 20,902 |
| Other staff costs | | |
| Staff costs excluding retirement benefit costs | 403,263 | 364,049 |
| Retirement benefit costs | 35,952 | 28,158 |
| Equity-settled share-based payments (note 38) | 40,070 | 50,897 |
| Total staff costs | 524,135 | 464,006 |
| Less: Amount capitalised to properties under development | (141,717) | (151,921) |
| | 382,418 | 312,058 |
| Gross rental income from investment properties | 197,975 | 158,785 |
| Less: direct expenses that generated rental income | (56,072) | (55,571) |
| | 141,903 | 103,214 |
| Share of tax of jointly controlled entities (included in share of results of jointly controlled entities) | 70,268 | 20,722 |

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

| | Directors' fees | Basic salaries and other benefits | Bonus | Retirement benefit contribution | Equity- settled share-based payments | Total |
|--|--------------------|--|-------------------|---------------------------------------|---|---------------|
| | RMB'000 | RMB'000 | RMB'000 (Note) | RMB'000 | RMB'000 | RMB'000 |
| Year ended December 31, 2009 | | | | | | |
| Name of director | | | | | | |
| Executive Director: | | | | | | |
| Madam Wu Yajun | — | 4,103 | 3,000 | 30 | — | 7,133 |
| Mr. Lin Chu Chang | — | 2,132 | 800 | 80 | 4,730 | 7,742 |
| Mr. Fang Shengtao | — | 1,934 | 3,424 | 56 | 4,220 | 9,634 |
| Mr. Chen Kai | — | 1,934 | 4,867 | 57 | 2,141 | 8,999 |
| Mr. Qin Lihong | — | 1,667 | 4,791 | 56 | 2,041 | 8,555 |
| Mr. Cai Kui | — | 2,600 | — | 25 | — | 2,625 |
| Independent non-executive director: | | | | | | |
| Mr. Frederick Peter Churhouse | 44 | — | — | — | 10 | 54 |
| Mr. Chan Chi On, Derek | 44 | — | — | — | 10 | 54 |
| Dr. Xiang Bing | 44 | — | — | — | 10 | 54 |
| | <u>132</u> | <u>14,370</u> | <u>16,882</u> | <u>304</u> | <u>13,162</u> | <u>44,850</u> |
| Year ended December 31, 2008 | | | | | | |
| Name of director | | | | | | |
| Executive Director: | | | | | | |
| Madam Wu Yajun | — | 3,015 | 600 | 29 | — | 3,644 |
| Mr. Cai Kui | — | 2,412 | 600 | 10 | — | 3,022 |
| Mr. Lin Chu Chang | — | 2,197 | 300 | 11 | 5,140 | 7,648 |
| Mr. Fang Shengtao | — | 1,934 | 500 | 52 | 4,102 | 6,588 |
| Mr. Chen Kai | — | — | — | — | — | — |
| Mr. Qin Lihong | — | — | — | — | — | — |
| Independent non-executive director: | | | | | | |
| Mr. Frederick Peter Churhouse | — | — | — | — | — | — |
| Mr. Chan Chi On, Derek | — | — | — | — | — | — |
| Dr. Xiang Bing | — | — | — | — | — | — |
| | <u>—</u> | <u>9,558</u> | <u>2,000</u> | <u>102</u> | <u>9,242</u> | <u>20,902</u> |

Note: The bonus relates to performance related incentive payment which is determined as a percentage of the profit of the Group for the years ended December 31, 2009 and 2008.

Employee's emoluments

The five highest paid individuals included two (2008: two) directors for the year ended December 31, 2009. The emoluments of the remaining three (2008: three) highest paid individuals for the year ended December 31, 2009 are as follows:

| | <u>2009</u> | <u>2008</u> |
|---|----------------|----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Employees | | |
| - basic salaries and allowances | 5,533 | 5,478 |
| - bonus | 10,646 | 2,300 |
| - retirement benefit contributions | 112 | 156 |
| - equity-settled share-based payments | <u>12,662</u> | <u>11,682</u> |
| | <u>28,953</u> | <u>19,616</u> |

During the years ended December 31, 2009 and 2008, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the years ended December 31, 2009 and 2008.

Their emoluments were within the following bands:

| | <u>Number of Individuals</u> | |
|--|------------------------------|-------------|
| | <u>2009</u> | <u>2008</u> |
| HK\$5,500,001 to HK\$6,000,000 | — | 1 |
| HK\$7,000,001 to HK\$7,500,000 | — | 1 |
| HK\$8,500,001 to HK\$9,000,000 | — | 1 |
| HK\$10,500,001 to HK\$11,000,000 | 2 | — |
| HK\$11,500,001 to HK\$12,000,000 | <u>1</u> | <u>—</u> |

11. DIVIDEND

| | <u>2009</u> | <u>2008</u> |
|--|----------------|----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Dividends: | | |
| Dividends declared and paid to the then shareholders | <u>88,120</u> | <u>138,408</u> |

On October 2, 2009, the Company declared dividend of HK\$100,000,000 (equivalent to RMB88,120,000), which was conditional upon the listing of the Company's shares, to the then shareholders of the Company.

During the year ended December 31, 2008, dividends of RMB138,408,000 were declared by Juntion Development to its then shareholders.

A final dividend of RMB324,450,000 (RMB0.063 per share) for the year ended December 31, 2009 has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming Annual General Meeting.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | <u>2009</u> | <u>2008</u> |
|--|------------------|------------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Earnings attributable to the owners of the Company for the purposes of calculation of basic and diluted earnings per share | <u>2,209,207</u> | <u>331,590</u> |
| | <u>2009</u> | <u>2008</u> |
| | <u>'000</u> | <u>'000</u> |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of calculation of basic per share | 4,132,192 | <u>4,000,000</u> |
| Effect of dilutive potential ordinary shares in respect of - share options . . | <u>23,825</u> | |
| Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share | <u>4,156,017</u> | |

For the year ended December 31, 2009, the outstanding share options issued under the Post-IPO share option scheme adopted on December 23, 2009 are not included in the calculation of diluted earnings per share as the adjusted exercise price was greater than the average market price of the Company's share during the outstanding period in 2009.

For the year ended December 31, 2008, the calculation of basic earnings per share are based on 4,000,000,000 shares in issue on the assumption that the issue of such shares of the Company under the Group Reorganisation had been completed on January 1, 2008.

No diluted earnings per share is calculated for the year ended December 31, 2008 in respect of the share-based payment transactions since the directors are of the opinion that, without reliable information of the market price of the shares to determine whether the outstanding share options were dilutive, such calculation and disclosure are not meaningful.

13. INVESTMENT PROPERTIES

| | <u>RMB'000</u> |
|--|------------------|
| FAIR VALUE | |
| At January 1, 2008 | 3,634,000 |
| Change in fair value recognised in profit or loss. | <u>125,100</u> |
| At December 31, 2008 | 3,759,100 |
| Additions | 23,745 |
| Disposal | (5,490) |
| Change in fair value recognised in profit or loss. | <u>920,945</u> |
| At December 31, 2009 | <u>4,698,300</u> |

The investment properties are all situated in the PRC under medium-term lease. All the investment properties are completed properties and rented out under operating leases.

The fair values of the Group's investment properties at December 31, 2009 and 2008 have been arrived at on the basis of valuations carried out on those dates by Savills Valuation and Professional Services Limited ("Savills"), a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuations were arrived at with adoption of the direct comparison approach by making reference to comparable sales transactions as available in the relevant markets and where appropriate, by capitalising the net rental income derived from the existing tenancies with due allowance for reversionary incoming potential of the respective properties.

All of the Group's property interests in leasehold land and buildings to earn rentals or for capital appreciation purposes are measured using the fair value model and classified and accounted for as investment properties.

14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Motor vehicles | Equipment and furniture | Total |
|---|-----------|----------------|----------------------------|---------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| COST | | | | |
| At January 1, 2008 | 126,008 | 22,941 | 11,109 | 160,058 |
| Additions | 2,186 | 12,357 | 13,188 | 27,731 |
| Transfer from properties under development upon completion of construction | 24,115 | — | — | 24,115 |
| Disposals | — | (3,202) | (709) | (3,911) |
| Disposal of a subsidiary | — | — | (13) | (13) |
| At December 31, 2008 | 152,309 | 32,096 | 23,575 | 207,980 |
| Additions | 1,844 | 3,501 | 8,299 | 13,644 |
| Acquisition of subsidiaries | — | — | 39 | 39 |
| Transfer from properties under development upon completion of construction | 17,591 | — | — | 17,591 |
| Disposals | (6,281) | (124) | (1,004) | (7,409) |
| At December 31, 2009 | 165,463 | 35,473 | 30,909 | 231,845 |
| ACCUMULATED DEPRECIATION | | | | |
| At January 1, 2008 | 13,272 | 9,029 | 4,371 | 26,672 |
| Charge for the year | 6,920 | 5,176 | 4,788 | 16,884 |
| Eliminated on disposals | — | (2,215) | (336) | (2,551) |
| Disposal of a subsidiary | — | — | (1) | (1) |
| At December 31, 2008 | 20,192 | 11,990 | 8,822 | 41,004 |
| Charge for the year | 9,327 | 5,436 | 7,100 | 21,863 |
| Eliminated on disposals | (1,890) | (117) | (876) | (2,883) |
| At December 31, 2009 | 27,629 | 17,309 | 15,046 | 59,984 |
| CARRYING VALUES | | | | |
| At December 31, 2009 | 137,834 | 18,164 | 15,863 | 171,861 |
| At December 31, 2008 | 132,117 | 20,106 | 14,753 | 166,976 |

The above items of property, plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values at the following rates per annum:

| | |
|-------------------------|---|
| Buildings | Over the estimated useful lives of 20 years or the term of the leases, if shorter |
| Motor vehicles | 20% |
| Equipment and furniture | 33% |

The buildings are all situated on land in the PRC held under medium-term leases.

The Group had not pledged property, plant and equipment at December 31, 2009 and 2008.

15. PROPERTIES UNDER DEVELOPMENT FOR SALES

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|
| | RMB'000 | RMB'000 |
| COST | | |
| At the beginning of the year | 14,890,771 | 8,702,421 |
| Additions | 7,560,542 | 8,400,488 |
| Additions through acquisition of subsidiaries/additional interests in subsidiaries | 826,204 | 231,782 |
| Disposal of a subsidiary | (18,112) | (858,990) |
| Transfer from prepaid lease payments upon commencement of construction | 1,431,482 | 3,604,037 |
| Transfer from deposit paid for acquisition of land use rights | — | 100,000 |
| Transfer to properties held for sales | (6,360,818) | (5,264,852) |
| Transfer to property, plant and equipment upon completion of construction | (17,591) | (24,115) |
| At the end of the year | <u>18,312,478</u> | <u>14,890,771</u> |

The properties under development are located in the PRC under medium-term lease and analysed for reporting purposes as follows:

| | <u>2009</u> | <u>2008</u> |
|-----------------------|-------------------|-------------------|
| | RMB'000 | RMB'000 |
| Current | 18,312,478 | 14,880,070 |
| Non-current | — | 10,701 |
| | <u>18,312,478</u> | <u>14,890,771</u> |

The current portion and non-current portion represent properties held for sales and property held for own use under development.

Included in the properties under development classified as current assets as at December 31, 2009 is carrying value of RMB5,778 million (2008: RMB7,362 million) which represents the carrying value of the properties expected to be completed and available for sale after more than twelve months from the end of the reporting period.

16. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments represents land use rights held in the PRC and is analysed as follows:

| | <u>2009</u> | <u>2008</u> |
|-----------------------|------------------|------------------|
| | RMB'000 | RMB'000 |
| Medium term | 135,936 | 458,217 |
| Long term | 3,058,271 | 2,568,071 |
| Non-current | <u>3,194,207</u> | <u>3,026,288</u> |

The Group's prepaid lease payments represent payments for obtaining the land use rights in the PRC with lease terms ranging from 40 to 70 years for the purpose of development for sale. The Group had not yet obtained the certificates of land use rights of approximately RMB2,110,150,000 (2008: RMB1,348,406,000) from the relevant authorities at December 31, 2009.

17. INTERESTS IN ASSOCIATES

| | <u>2009</u> | <u>2008</u> |
|--|----------------|----------------|
| | RMB'000 | RMB'000 |
| Cost of investments, unlisted | 415 | 415 |
| Less: Impairment loss recognised | (414) | (414) |
| | <u>1</u> | <u>1</u> |

Details of the associates as at December 31, 2009 are set out in note 42.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | <u>2009</u> | <u>2008</u> |
|---|------------------|----------------|
| | RMB'000 | RMB'000 |
| Cost of investments, unlisted | 2,225,681 | 882,476 |
| Share of post-acquisition profits | <u>148,153</u> | <u>49,992</u> |
| | <u>2,373,834</u> | <u>932,468</u> |

Details of the jointly controlled entities as at December 31, 2009 are set out in note 42.

During the year ended December 31, 2008, the Group disposed of 28.5% equity interest in Chengdu Huixin. The Group's interest has decreased from 57.8% to 29.3% accordingly. Details of which are disclosed in note 6. Chengdu Huixin is still accounted for as a jointly controlled entity since in accordance with the memorandum and the articles of Chengdu Huixin, the joint venture partners have contractually agreed the sharing of control over the financial and operating policies of Chengdu Huixin.

During the year ended December 31, 2008, the Group injected RMB317,800,000 into Shanghai Hengrui Real Estate Company Limited ("Shanghai Hengrui") as capital injection, representing 18.3% effective interest in Shanghai Hengrui, in which RMB261,569,000 was injected by using the deposit paid for acquisition of land use rights in prior year.

During the year ended December 31, 2008, the Group also disposed of 70% interest of two wholly owned subsidiaries, Chengdu Xixi Real Estate Company Limited ("Chengdu Xixi") and Chengdu Xixiang Real Estate Company Limited ("Chengdu Xixiang"), through the disposal of a wholly owned subsidiary, COF V SRL ("COF V"). Upon completion of the disposal, Chengdu Xixi and Chengdu Xixiang became jointly controlled entities of the Group (see note 32).

During the year ended December 31, 2009, the Group acquired an effective equity interest of 27.4% in Shanghai Hengrui. The Group's interest has increased from 18.3% to 45.7%, at a consideration of approximately RMB537,796,000. Shanghai Hengrui is still accounted for as a jointly controlled entity since in accordance with the memorandum and the articles of Shanghai Hengrui, the joint venture partners have contractually agreed the sharing of control over the financial and operating policies of Shanghai Hengrui.

During the year ended December 31, 2009, the Group also acquired an effective equity interest of 44.4444% in Northpole Intermediary Limited ("Northpole"), at a consideration of RMB1,037,018,000. Northpole is accounted for as a jointly controlled entity since in accordance with the memorandum and the articles of Northpole, the joint venture partners have contractually agreed the sharing of control over the financial and operating policies of Northpole.

The summarised financial information in respect of the Group's jointly controlled entities attributable to the Group's interest therein which are accounted for using the equity accounting method is set out below:

| | <u>2009</u> | <u>2008</u> |
|-----------------------------------|------------------|------------------|
| | RMB'000 | RMB'000 |
| Non-current assets | 850,815 | 3,667 |
| Current assets | 2,837,805 | 1,966,160 |
| Current liabilities | (659,065) | (678,056) |
| Non-current liabilities | (655,721) | (359,303) |
| Income | 573,145 | 335,928 |
| Expenses | <u>(437,147)</u> | <u>(272,703)</u> |

19. AVAILABLE-FOR-SALE INVESTMENTS

| | <u>2009</u> | <u>2008</u> |
|---|----------------|----------------|
| | RMB'000 | RMB'000 |
| Unlisted equity securities, at cost | <u>8,600</u> | <u>8,600</u> |

The above unlisted equity investments represent the investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be reliably measured.

20. INVENTORIES

| | <u>2009</u> | <u>2008</u> |
|----------------------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| Construction materials | 300,420 | 138,163 |
| Consumables and others | <u>628</u> | <u>489</u> |
| | <u>301,048</u> | <u>138,652</u> |

21. PROPERTIES HELD FOR SALES

The Group's properties held for sales are situated in the PRC. All the properties held for sales are stated at cost.

22. ACCOUNTS AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade receivables are mainly arisen from sales of properties. Considerations in respect of properties sold are paid in accordance with the terms of the related sales and purchase agreements, normally within 45 days from the agreement. Consideration under pre-sale contracts will be fully received prior to the delivery of the properties to the purchasers.

| | <u>2009</u> | <u>2008</u> |
|--|------------------|------------------|
| | RMB'000 | RMB'000 |
| Trade receivables | 143,394 | 41,996 |
| Other receivables, net of allowance for doubtful debts | 209,572 | 713,343 |
| Advances to suppliers | 246,246 | 111,824 |
| Prepaid tax | 782,961 | 742,885 |
| Prepayments and utilities deposits | <u>724</u> | <u>1,549</u> |
| | <u>1,382,897</u> | <u>1,611,597</u> |

The following is an aged analysis of trade receivables at the end of the reporting period:

| | <u>2009</u> | <u>2008</u> |
|--------------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| Within 60 days | 136,261 | 35,693 |
| 61 - 180 days | 4,652 | 4,389 |
| 181 - 365 days | 2,481 | 1,435 |
| 1 - 2 years | <u>—</u> | <u>479</u> |
| | <u>143,394</u> | <u>41,996</u> |

At December 31, 2009, 95% (2008: 85%) of the trade receivables are neither past due nor impaired and with satisfactory credit quality.

Included in the Group's accounts receivable balance are trade receivables with a carrying amount of approximately RMB7,133,000 (2008: RMB6,303,000) at December 31, 2009 which are past due at the end of the reporting period for which the Group has not provided for as the Group has retained the legal titles of the properties sold to these customers at each end of the reporting period and the estimated fair value of the relevant properties is expected to be higher than the outstanding receivable amount.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

Included in other receivables mainly represented temporary payments and miscellaneous projects related deposits paid which are refundable when maturity, of which, approximately RMB39,566,000 (2008: RMB44,566,000) was impaired as at December 31, 2009 because the counterparties are in severe financial difficulties and the Group does not hold any collateral over these balances. The remaining balance was not yet due for repayment.

Movements in the allowance for doubtful debts on other receivables:

| | <u>2009</u> | <u>2008</u> |
|--|----------------|----------------|
| | RMB'000 | RMB'000 |
| Balance at the beginning of the year | 44,566 | 13,457 |
| Impairment losses recognised | — | 31,109 |
| Amounts recovered during the year | <u>(5,000)</u> | <u>—</u> |
| Balance at the end of the year | <u>39,566</u> | <u>44,566</u> |

23. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts due from jointly-controlled entities are unsecured, interest-free and are repayable within one year.

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits are denominated in RMB which represent deposits pledged to the banks to secure the mortgage sales of property. The deposits carry fixed rate at 0.36% (2008: 0.72%) per annum at December 31, 2009.

Bank balances and cash comprise cash held by the Group and demand deposits with an original maturity of three months or less.

The interest rates on cash placed with financial institutions ranged from nil to 2.25% (2008: nil to 3.125%) per annum.

| | <u>2009</u> | <u>2008</u> |
|--|------------------|------------------|
| | RMB'000 | RMB'000 |
| Analysis of bank balances and cash by currency: | | |
| - Denominated in RMB | 3,703,416 | 2,896,604 |
| - Denominated in HKD | 2,077,520 | 233,474 |
| - Denominated in United States dollars ("USD") | <u>1,020,637</u> | <u>98,719</u> |
| | <u>6,801,573</u> | <u>3,228,797</u> |

25. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|
| | RMB'000 | RMB'000 |
| Trade payables and accrued expenditure on construction | 1,611,284 | 1,453,839 |
| Bills payable | 42,738 | 282,789 |
| Deposits received and receipt in advance from property sales | 13,340,989 | 10,959,662 |
| Other payables and accrued charges | <u>1,367,309</u> | <u>1,147,431</u> |
| | <u>16,362,320</u> | <u>13,843,721</u> |

Trade payables and accrued expenditure on construction comprise construction costs and other project-related expenses which are payable based on project progress measured by the Group. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The following is an aged analysis of trade payables and accrued expenditure on construction and bills payable at the end of the reporting period:

| | <u>2009</u> | <u>2008</u> |
|--------------------------|------------------|------------------|
| | RMB'000 | RMB'000 |
| Within 60 days | 1,396,739 | 1,491,136 |
| 61 - 180 days | 142,015 | 205,148 |
| 181 - 365 days | 76,478 | 23,882 |
| 1 - 2 years | 34,270 | 11,354 |
| 2 - 3 years | 2,499 | 5,108 |
| Over 3 years | 2,021 | — |
| | <u>1,654,022</u> | <u>1,736,628</u> |

26. AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES/DIRECTORS

The amounts are denominated in RMB which are unsecured, interest free and repayable on demand.

27. BANK AND OTHER BORROWINGS

| | <u>2009</u> | <u>2008</u> |
|---------------------------------|------------------|-------------------|
| | RMB'000 | RMB'000 |
| Bank loans, secured | 5,810,000 | 10,448,051 |
| Bank loans, unsecured | 2,240,310 | 2,312,700 |
| Other loan, unsecured | 329,000 | 79,000 |
| Bond, secured | 1,386,195 | — |
| | <u>9,765,505</u> | <u>12,839,751</u> |

The borrowings are repayable:

| | <u>2009</u> | <u>2008</u> |
|--|------------------|------------------|
| | RMB'000 | RMB'000 |
| Within one year or on demand | 3,710,200 | 6,480,051 |
| More than one year, but not exceeding two years | 1,868,750 | 5,279,700 |
| More than two years, but not exceeding three years | 2,800,360 | 1,080,000 |
| Exceeding five years | 1,386,195 | — |
| | 9,765,505 | 12,839,751 |
| Less: Amount due within one year shown under current liabilities | (3,710,200) | (6,480,051) |
| Amount due after one year | <u>6,055,305</u> | <u>6,359,700</u> |

| | <u>2009</u> | <u>2008</u> |
|-------------------------------------|------------------|-------------------|
| | RMB'000 | RMB'000 |
| Analysis of borrowings by currency: | | |
| - Denominated in RMB | 8,691,295 | 10,884,550 |
| - Denominated in HKD | 1,074,210 | 1,955,201 |
| | <u>9,765,505</u> | <u>12,839,751</u> |

Certain bank and other loans as at the end of the reporting period were secured by the pledge of assets as set out in note 34.

Borrowings include approximately RMB1,483,210,000 (2008: RMB279,000,000) fixed rate borrowings which carry interest ranging from 3.08% to 5.4% (2008: 6.75% to 7.47%) per annum at December 31, 2009, and exposing the Group to fair value interest rate risk. The remaining borrowings are arranged at variable rate based on the interest rates quoted by the People's Bank of China, the effective interest rate is ranging from 4.86% to 5.67% (2008: 5.20% to 10.71%) per annum at December 31, 2009, and exposing the Group to cash flow interest rate risk.

On May 5, 2009, the Group issued a bond of the principal amount of RMB1,400,000,000 and will be repayable in full by May 5, 2016, subject to early redemption. The bond bears fixed coupon interest rate at 6.7% per annum for the first five years payable semi-annually in arrears and is subject to an one-off upward adjustment of up to 100 basis points (inclusive) from May 5, 2014 at the election of the Group. On April 25, 2014, the Group will determine the interest rate by election of an upward adjustment to the interest rate or maintain the interest rate at 6.7%, a holder of the bond then may elect to redeem all or part of the bond at the face value. A portion of such bond, RMB1,100,000,000, is listed and traded on the Shanghai Stock Exchange. The bond is secured by certain properties and land use rights of the Group.

Management estimates the fair value of the bond at December 31, 2009 to be approximately RMB1,437,800,000. The fair value of both the listed and unlisted portion of the bond had been calculated with reference to the quoted market price of the listed portion of the bond.

28. CAPITAL AND RESERVES

| | Number of ordinary shares | Nominal value |
|--|--------------------------------------|----------------------|
| | | HK\$'000 |
| Authorised | | |
| At January 1, 2008 (note (a)(i)) | 500,000 | 50 |
| Increase during the year (note (a)(ii)) | 9,999,500,000 | 999,950 |
| At December 31, 2008 and December 31, 2009 | <u>10,000,000,000</u> | <u>1,000,000</u> |
| Issued and fully paid | | |
| At January 1, 2008 (note (a)(i)) | 1,000 | — |
| Issue of shares upon the Group Reorganisation (note (a)(ii)) | 3,999,999,000 | 400,000,000 |
| At December 31, 2008 | 4,000,000,000 | 400,000,000 |
| Issue of shares by global offering (note (a)(iii)) | 1,150,000,000 | 115,000,000 |
| At December 31, 2009 | <u>5,150,000,000</u> | <u>515,000,000</u> |
| Shown in the consolidated financial statements | | |
| At December 31, 2009 | RMB equivalent | <u>452,972,000</u> |
| At December 31, 2008 | RMB equivalent | <u>351,668,000</u> |

(a) Share capital

- (i) On December 21, 2007, the Company was incorporated as an exempted company with limited liability in the Cayman Islands. As at the date of incorporation, the Company's initial authorised share capital was HK\$50,000, divided into 500,000 ordinary shares of par value of HK\$0.10 each, of which 1 subscriber share was allotted and issued to Codan Trust Company (Cayman) Limited ("Codan Trust") as the initial subscriber. On the same date, one share was transferred from Codan Trust to Charm Talent and 599 shares and 400 shares were allotted and issued to Charm Talent and Junson Development International Limited ("Junson Development") (formerly known as Previous Full International Limited) respectively.
- (ii) Pursuant to the resolutions in writing of the shareholders of the Company on May 27, 2008, the authorised share capital of the Company was increased from HK\$50,000 to HK\$1,000,000,000 by the creation of 9,999,500,000 new shares.

Pursuant to an agreement dated June 11, 2008, Madam Wu Yajun and Mr. Cai Kui, the then shareholders and directors of Juntion Development, transferred the shares in Juntion Development of 1,200,000 shares and 800,000 shares, respectively, to Longfor Investment, at a total consideration of HK\$3,201,155,089.

Pursuant to two deeds of assignment dated June 11, 2008, Madam Wu Yajun and Mr. Cai Kui assigned the amount of HK\$3,201,155,089 due from Longfor Investment to Charm Talent and Junson Development for the purchase of the entire issued share capital of Juntion Development which these companies then assign the amount to the Company.

Longfor Investment allotted and issued one share of USD 1, credited as fully paid, in settlement of the amount due from Longfor Investment to the Company.

Pursuant to the written resolutions of the shareholders of the Company passed on June 11, 2008, the loans due to Charm Talent and Junson Development in the total sum of HK\$3,201,155,089 were capitalised and applied in paying up in full a total of 3,999,999,000 ordinary shares of HK\$0.10 each.

- (iii) In November, 2009, 1,150,000,000 shares of HK\$0.1 each were issued pursuant to the initial public offering of the Company by way of Hong Kong public offering and global offering at a price of HK\$7.07 per share. All the shares which were issued by the Company during the year rank pari passu with each other in all respects.
- (iv) The share capital shown on the consolidated statement of financial position at January 1, 2008 represented the combination of the share capital of Juntion Development and the Company before the Group Reorganisation.

(b) **Reserves**

Name nature and purpose of reserves

(i) *Share premium*

Share premium at December 31, 2009 represented share premium of the Company.

The share premium account is governed by the Cayman Companies Law and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the Company to be issued to equity shareholders as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the Company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the Company.

Provided that no distribution or dividend may be paid to the equity shareholders out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) *Capital reserve*

On June 11, 2008, the Group Reorganisation was completed by issuing 3,999,999,000 shares of HK\$0.1 each. The difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of Juntion Development is debited to capital reserve.

(iii) *Special reserve*

During the year ended December 31, 2007, Juntion Development injected additional capital of HK\$770,000,000 in a non-wholly owned subsidiary, Chongqing Longhu Development Company Limited (“Chongqing Longhu Development”) in which the minority shareholders are Madam Wu Yajun and Mr. Cai Kui, who are also the ultimate shareholders of the Company. The Group’s equity interest in Chongqing Longhu Development has increased from 60% to 91.3% and a discount on deemed acquisition of RMB620,672,000 which represents the excess of the share of net assets attributable to the additional interest acquired over the amount injected was recognised in special reserve as the contribution from equity owners.

(iv) *Statutory surplus reserve*

In accordance with the articles of association of certain subsidiaries established in the PRC, these subsidiaries are required to transfer 10% of the profit after taxation to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity owners. The statutory surplus reserve can be used to make up for previous year’s losses, expand the existing operations or convert into additional capital of the subsidiaries.

(v) *Capital contribution reserve*

Capital contribution reserve represents the fair value of share awards under the Pre-IPO share award scheme as set out in note 38(a).

29. DEFERRED TAXATION

The followings are the major deferred taxation assets (liabilities) recognised and movements thereon during the year:

| | Accelerated tax depreciation | Fair value of investment properties | Tax losses | Land appreciation tax provisions | Allowance for doubtful debts | Government grants (Note 1) | Unrealised profit on intra-group purchases | Withholding tax on retained profits to be distributed | Others (Note 2) | Temporary differences on revenue recognition and related cost of sales | Total |
|---|------------------------------|-------------------------------------|------------|----------------------------------|------------------------------|----------------------------|--|---|-----------------|--|-----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At January 1, 2008 | (22,124) | (687,487) | 13,071 | 71,851 | 7,750 | 36,207 | 13,336 | — | 11,013 | 2,692 | (553,691) |
| (Charge) credit to profit or loss | (10,289) | (31,275) | 18,148 | 23,156 | 1,250 | (5,195) | (775) | (44,887) | 13,467 | 207,426 | 171,026 |
| Disposal of subsidiaries | — | — | (861) | — | — | — | — | — | — | — | (861) |
| At December 31, 2008 | (32,413) | (718,762) | 30,358 | 95,007 | 9,000 | 31,012 | 12,561 | (44,887) | 24,480 | 210,118 | (383,526) |
| (Charge) credit to profit or loss | (9,635) | (230,132) | (5,680) | 93,824 | (5,250) | (1,867) | 8,904 | (123,771) | (6,512) | (210,118) | (490,237) |
| Acquisition of subsidiaries | — | — | 1,100 | — | — | — | — | — | 1,558 | — | 2,658 |
| At December 31, 2009 | (42,048) | (948,894) | 25,778 | 188,831 | 3,750 | 29,145 | 21,465 | (168,658) | 19,526 | — | (871,105) |

Notes:

1. This represents the tax effect of the temporary difference arising from the treatment of the government grants between the accounting standard and the tax bureau. Tax bureau treated the government grants as an income but for financial reporting purpose, the government grants are treated as deduction from costs of properties under development.
2. This represents the tax effect of temporary differences arising from the deduction of the advertising expense. The Group can deduct its advertising expense of no more than 15% of its revenue and for the part that cannot be deducted, if any, it can be brought forward to the future years.

For the presentation purposes of the consolidated statement of financial position, certain deferred taxation assets (liabilities) have been offset. The following is the analysis of the deferred taxation balances for financial reporting purposes:

| | <u>2009</u> | <u>2008</u> |
|---|--------------------|------------------|
| | RMB'000 | RMB'000 |
| Deferred taxation assets | 227,702 | 347,960 |
| Deferred taxation liabilities | <u>(1,098,807)</u> | <u>(731,486)</u> |
| | <u>(871,105)</u> | <u>(383,526)</u> |

At December 31, 2009, the Group had unused estimated tax losses of approximately RMB155,286,000 (2008: RMB177,598,000) available to offset against future profits. Deferred taxation assets have been recognised in respect of approximately RMB103,111,000 (2008: RMB126,122,000) of such losses. No deferred taxation asset has been recognised in respect of the remaining RMB52,175,000 (2008: RMB51,476,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years:

| | <u>2009</u> | <u>2008</u> |
|----------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| 2012 | 1,338 | 1,338 |
| 2013 | 49,865 | 50,138 |
| 2014 | <u>972</u> | <u>—</u> |
| | <u>52,175</u> | <u>51,476</u> |

30. ACQUISITION OF ASSETS AND ASSUMPTION OF LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

During the year ended December 31, 2009, the net assets acquired through the acquisition of subsidiaries are summarised as follows:

| | <u>Chengdu Xixi</u> | <u>Chengdu Xixiang</u> | <u>Beijing Mengke</u> | <u>Total</u> |
|--|---------------------|------------------------|-----------------------|------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Note 1) | (Note 1) | (Note 2) | |
| Net assets acquired at fair value: | | | | |
| Property, plant and equipment | — | 39 | — | 39 |
| Properties under development | 376,228 | 449,976 | — | 826,204 |
| Prepaid lease payments | — | — | 459,983 | 459,983 |
| Deferred taxation assets | 343 | 2,315 | — | 2,658 |
| Accounts and other receivables, deposits and prepayments | 7,490 | 108,003 | — | 115,493 |
| Bank balances and cash | 120,699 | 4,512 | 17 | 125,228 |
| Accounts payable, deposits received and accrued charges | (177) | (134,246) | (353,522) | (487,945) |
| Bank and other borrowings | <u>(180,000)</u> | <u>—</u> | <u>—</u> | <u>(180,000)</u> |
| | 324,583 | 430,599 | 106,478 | 861,660 |
| Amount attributable to the Group and previously classified as interests in jointly controlled entities | <u>(100,283)</u> | <u>(128,899)</u> | <u>—</u> | <u>(229,182)</u> |
| Total consideration | <u>224,300</u> | <u>301,700</u> | <u>106,478</u> | <u>632,478</u> |
| Satisfied by: | | | | |
| Cash | <u>224,300</u> | <u>301,700</u> | <u>106,478</u> | <u>632,478</u> |
| Net cash outflow arising on acquisition: | | | | |
| Cash paid | 224,300 | 301,700 | 106,478 | 632,478 |
| Bank balances and cash acquired | <u>(120,699)</u> | <u>(4,512)</u> | <u>(17)</u> | <u>(125,228)</u> |
| | <u>103,601</u> | <u>297,188</u> | <u>106,461</u> | <u>507,250</u> |

Note 1: After the disposal of Chengdu Xixi and Chengdu Xixiang during the year ended December 31, 2008 as set out in note 32, the Group reacquired the respective interests and they became wholly owned subsidiaries of Chongqing Longhu Development, a 91.3% owned subsidiary, on March 31, 2009. The additional 70% equity interests in Chengdu Xixi and Chengdu XiXiang had been acquired by the Group at a consideration of RMB224,300,000 and RMB301,700,000 respectively.

Note 2: On September 18, 2009, the Group, via Beijing Longhu Zhongbai Properties Company Limited (“Beijing Longhu Zhongbai”) acquired and assumed the above assets and liabilities through the acquisition of 100% equity interest in Beijing Mengke Properties Co., Ltd. (“Beijing Mengke”).

31. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

During the year ended December 31, 2008, the Group acquired the remaining effective 3.9% equity interest in Chengdu Longhu Jincheng Real Estate Company Limited at a consideration of approximately RMB39,200,000.

During the year ended December 31, 2008, the remaining 44.7% equity interest in Xi’an Longhu Banpo Real Estate Co. Ltd. has been acquired by the Group at a consideration of approximately RMB269,056,000 from the minority shareholders. As at December 31, 2008, an amount of RMB241,674,000 was not yet paid by the Group. As at December 31, 2009, RMB216,674,000 was still not yet paid by the Group.

During the year ended December 31, 2008, the remaining 1% equity interest in Beijing Longhu Zhongbai was acquired by the Group at a consideration of RMB10,000,000 from the minority shareholder.

During the year ended December 31, 2008, the remaining 2% equity interest in Beijing Longhu Shidai Company Limited was acquired by the Group at a consideration of RMB200,000,000 from the minority shareholders.

During the year ended December 31, 2008, the additional 21.9% equity interest in Chengdu Longhu Tongjin Real Estate Company Limited was acquired by the Group, resulting in the increase in effective interest from 46.6% to 68.5%, at a consideration of approximately RMB231,972,000 from the minority shareholders.

During the year ended December 31, 2009, the additional 57.1% equity interest in Changzhou Jia’nan Properties Co., Ltd. (“Changzhou Jia’nan”) was acquired by the Group, following the initial investment of 28% equity interest in it, the effective interest has increased from 28% to 85.1%, at a consideration of RMB30,500,000 from the minority shareholders.

Since these companies are principally engaged in the property development, the acquisitions of additional interests in these subsidiaries were therefore regarded as acquisition of assets which resulted in additional costs for properties under development. The total amount of the additional cost as at December 31, 2009 was nil (2008: approximately RMB231,782,000).

32. DISPOSAL OF SUBSIDIARIES

During the year ended December 31, 2009, the Group disposed of its 100% equity interest in a wholly owned subsidiary, Shanghai Wanzhuo Investment Limited, at a cash consideration of approximately RMB56,833,000 to an independent third party.

During the year ended December 31, 2008, the Group disposed of its 100% equity interest in a wholly owned subsidiary, COF V, which holds 70% interest in Chengdu Xixi and Chengdu Xixiang, companies established in the PRC and engaged in property development, at a cash consideration of US\$1 to an independent third party. Subsequent to the disposal of COF V, the remaining 30% interest in Chengdu Xixi and Chengdu Xixiang are still held by group companies and they became jointly controlled entities of the Group.

The net assets of subsidiaries at the date of disposal are as follows:

| | <u>2009</u> | <u>2008</u> |
|--|----------------|----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Net assets disposed of: | | |
| Property, plant and equipment | — | 12 |
| Prepaid lease payments | 271,708 | — |
| Deferred taxation asset | — | 861 |
| Inventories | — | 802 |
| Properties under development | 18,112 | 858,990 |
| Accounts and other receivable, deposits and prepayments. | — | 17,010 |
| Bank balances and cash | 142 | 2,616 |
| Accounts payable, deposits received and accrued charges. | (222,596) | (3,249) |
| Amounts due to the other entities of the Group | — | (532,827) |
| Amounts due to jointly controlled entities | — | (103,780) |
| Taxation payable | — | (3,814) |
| | <u>67,366</u> | <u>236,621</u> |
| Loss on disposal | (10,533) | (5,787) |
| The Group's remaining interests and classified as interests in jointly controlled entities | — | (230,834) |
| Total consideration. | <u>56,833</u> | <u>—</u> |
| Satisfied by: | | |
| Cash. | <u>56,833</u> | <u>—</u> |
| Net cash inflow arising from disposal: | | |
| Cash consideration | 56,833 | — |
| Bank balances and cash disposed of. | (142) | (2,616) |
| | <u>56,691</u> | <u>(2,616)</u> |

33. RETIREMENT BENEFIT PLANS

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustee. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The Group recognised the retirement benefit costs of RMB36,256,000 (2008: RMB28,260,000) for the year ended December 31, 2009.

34. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking and other facilities granted to the Group and mortgage loans to buyers of sold properties at the end of the reporting period:

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Investment properties | 3,286,338 | 2,945,732 |
| Prepaid lease payments | — | 554,567 |
| Properties under development | 8,081,396 | 8,793,468 |
| Properties held for sales | 10,553 | 9,713 |
| Pledged bank deposits. | 496,208 | 605,379 |
| | <u>11,874,495</u> | <u>12,908,859</u> |

Other than the above, certain banking facilities are secured by a charge over the shares of Juntion Development and subsidiaries, including Jasmine Spread Investment Limited, Everbay Investment Limited, Silver Oak Enterprises Limited and Join Dragon Limited, at December 31, 2008.

The shares charged were released during the year ended December 31, 2009.

35. LEASE ARRANGEMENTS

The Group as a lessor

Contingent rental for certain properties was determined by a certain percentage of turnover earned by the tenants. The contingent rental income recognised during the year ended December 31, 2009 amounting to approximately RMB27,548,000 (2008: RMB16,622,000). The properties held by the Group for rental purpose have committed tenants from one to twenty years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments as follows:

| | <u>2009</u> | <u>2008</u> |
|---|------------------|------------------|
| | RMB'000 | RMB'000 |
| Within one year | 200,839 | 131,810 |
| In the second to fifth year inclusive | 440,797 | 335,920 |
| After five years. | 499,981 | 539,744 |
| | <u>1,141,617</u> | <u>1,007,474</u> |

The Group as a lessee

At the end of the reporting period, the Group had future minimum lease payments under non-cancelable operating leases in respect of leased properties are as follows:

| | <u>2009</u> | <u>2008</u> |
|---|----------------|----------------|
| | RMB'000 | RMB'000 |
| Within one year | 14,131 | 15,394 |
| In the second to fifth year inclusive | 21,951 | 23,870 |
| After five years. | 4,663 | — |
| | <u>40,745</u> | <u>39,264</u> |

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of one to twenty years and rentals are fixed at the date of signing of lease agreements.

36. COMMITMENTS

At the end of the reporting period, the Group had the following commitments:

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|------------------|
| | RMB'000 | RMB'000 |
| Contracted for but not provided for in the consolidated financial statements: | | |
| - Expenditure in respect of properties under development. | 6,043,737 | 5,170,495 |
| - Expenditure in respect of acquisition of land use rights. | 8,533,238 | 3,231,372 |
| - Acquisition of additional interest in a subsidiary | 109,100 | — |
| | <u>14,686,075</u> | <u>8,401,867</u> |

37. CONTINGENT LIABILITIES

The Group provided guarantees amounting approximately RMB2,686,846,000 (2008: RMB2,204,667,000) as at December 31, 2009 in respect of mortgage bank loans granted to purchasers of the Group's developed properties. In the opinion of the directors of the Company, the fair values of these financial guarantee contracts of the Group are insignificant at initial recognition and the directors of the Company consider that the possibility of the default of the parties involved is remote, accordingly, no value has been recognised at the inception of the guarantee contracts and at the end of the reporting period as at December 31, 2009 and 2008.

Guarantees are given to banks with respect to loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the delivery of the properties to the purchasers or completion of the relevant mortgage properties registration.

| | <u>2009</u> | <u>2008</u> |
|------------------------------|------------------|------------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| Mortgage guarantees. | <u>2,686,846</u> | <u>2,204,667</u> |

38. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share award/share option schemes:

a. *Pre-IPO share award schemes*

The Company's two Pre-IPO share award schemes (the "Share Award Schemes") were adopted pursuant to a resolution passed on November 30, 2007 and July 31, 2009 respectively. Under the Share Award Schemes, the Company has awarded the Company's shares (the "Awarded Shares") to directors of the Company and certain employees of the Group. The objective of the Share Award Schemes is to align the interests of the employees with those of the Company, to share the pride of ownership among employees and to reward their performance and contribution to the Group.

Under the scheme adopted on November 30, 2007, the total number of shares in respect of which Awarded Shares had been granted on November 30, 2007 and remained was 64,014,000 (including 6,749,000 shares granted to directors) as at December 31, 2009 and 2008, 1.6% of the shares of the Company at that date. The Awarded Shares, subject to a vesting period, are being held by the trustee. The vesting period is either four or five years during which the award shares granted to employee will vest on each anniversary of the first vesting date in equal portions. The first vesting date is January 1, 2009.

Under the scheme adopted on July 31, 2009, the total number of shares in respect of which Awarded Shares had been granted on July 31, 2009 and remained outstanding was 30,000,000 (including 7,363,000 shares granted to directors) as at December 31, 2009, representing 0.58% of the shares of the Company as at December 31, 2009. The Awarded Shares, subject to a vesting period, are being held by the trust of the ultimate shareholders. The vesting period is four years during which the award shares granted to employee will vest on each anniversary of the first vesting date in equal portions. The first vesting date is July 31, 2010.

The weighted average fair value of the shares granted on November 30, 2007 and July 31, 2009 were RMB116,050,000 and RMB71,250,000 respectively and were determined using a mix of asset-based and market approach with option-based pricing model is adopted to account for the vesting condition. The significant inputs into the model were estimated fair value of shares at the grant date, expected dividend pay out rate, annual risk-free rate and volatility rate. The volatility is measured based on past years historical price volatility of similar companies listed on the SEHK.

The Group recognised an expense of RMB39,861,000 and RMB47,626,000 for the years ended December 31, 2009 and 2008 respectively in relation to shares awarded by the Company. The shares awarded by the Company will be settled with the existing shares held by the trust of the ultimate shareholders. Accordingly, the respective amounts were credited to capital contribution reserve.

The terms and conditions of the grants that existed during the year are as follows:

| | Number of share awards | Vesting Conditions | Contractual life of options |
|------------------------------------|---------------------------------------|---|--|
| Share Awards granted to directors: | | | |
| - on November 30, 2007 | 6,749,000 | 25% from the date of grant to January 1, 2009 | 10 years |
| | | 25% from the date of grant to January 1, 2010 | 10 years |
| | | 25% from the date of grant to January 1, 2011 | 10 years |
| | | 25% from the date of grant to January 1, 2012 | 10 years |
| - on July 31, 2009 | 7,363,000 | 25% from the date of grant to July 31, 2010 | 10 years |
| | | 25% from the date of grant to July 31, 2011 | 10 years |
| | | 25% from the date of grant to July 31, 2012 | 10 years |
| | | 25% from the date of grant to July 31, 2013 | 10 years |
| Share Awards granted to employees: | | | |
| - on November 30, 2007 | 57,265,000 | 25% from the date of grant to January 1, 2009 | 10 years |
| | | 25% from the date of grant to January 1, 2010 | 10 years |
| | | 25% from the date of grant to January 1, 2011 | 10 years |
| | | 25% from the date of grant to January 1, 2012 | 10 years |
| - on July 31, 2009 | 22,637,000 | 25% from the date of grant to July 31, 2010 | 10 years |
| | | 25% from the date of grant to July 31, 2011 | 10 years |
| | | 25% from the date of grant to July 31, 2012 | 10 years |
| | | 25% from the date of grant to July 31, 2013 | 10 years |
| Total share awards | <u>94,014,000</u> | | |

b. ***Pre-IPO share option scheme***

The Company's Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a resolution passed on November 30, 2007 for the primary purpose of providing incentives to directors and eligible employees of the Group, and options can only be offered and granted from November 30, 2007 until the business date before the date on which dealings in the Company's share first commence on the SEHK ("the Listing Date"). Under the Pre-IPO share Option Scheme, the directors of the Company and its subsidiaries were granted options to subscribe for shares in the Company. The term of the Pre-IPO share Option Scheme is 10 years from the date of adoption.

On November 30, 2007, 37,940,000 shares (including 15,588,000 shares granted to directors) of option were granted. The number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme as at December 31, 2009 and 2008 was 37,940,000, representing 0.95% of the shares of the Company following completion of the Group Reorganisation.

The total number of the Company's shares which may be issued upon exercise of all options to be granted under the Pre-IPO Share Option Scheme and other share option schemes of the Company shall not exceed 10% of the aggregate of the shares of the Company in issue at the Listing Date.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme and other share option scheme of the Company must not exceed 30% of the shares in issue from time to time.

The vesting period of the share options is as follows:

25%: from the date of grant to January 1, 2009

25%: from the date of grant to January 1, 2010

25%: from the date of grant to January 1, 2011

25%: from the date of grant to January 1, 2012

The fair values of the share options were calculated using the binominal model. The inputs into the model were as follows:

| | |
|--|--|
| Date of grant | November 30, 2007 |
| Estimated share price at the date of grant | RMB1.97 |
| Exercise price | Initial at HK\$6.46 (amended to HK\$2.94 effective from January 1, 2009) |
| Expected volatility | 55% |
| Expected life (year) | 10 year with different vesting periods |
| Risk-free rate | 3.2% |
| Expected dividend yield | Nil |
| Range of fair value | Range of RMB0.817 to RMB0.83 at initial recognition (amended to range of RMB1.074 to RMB1.120 as a result of amendment of exercise price on January 1, 2009) |

Expected volatility was determined by using the historical volatility of the similar listed companies' share prices over the previous one year.

The Group recognised the total expense of RMB12,941,000 (2008: RMB12,513,000) for the year ended December 31, 2009 in relation to share options granted by the Company.

The terms and conditions of the grants that existed during the year are as follows:

| | <u>Number of Options</u> | <u>Vesting Conditions</u> | <u>Contractual life of options</u> |
|---|------------------------------|---|--|
| Share Options granted to directors: | | | |
| - on November 30, 2007 | 15,588,000 | 25% from the date of grant to January 1, 2009 | 10 years |
| | | 25% from the date of grant to January 1, 2010 | 10 years |
| | | 25% from the date of grant to January 1, 2011 | 10 years |
| | | 25% from the date of grant to January 1, 2012 | 10 years |
| Share Options granted to employees: | | | |
| - on November 30, 2007 | <u>22,352,000</u> | 25% from the date of grant to January 1, 2009 | 10 years |
| | | 25% from the date of grant to January 1, 2010 | 10 years |
| | | 25% from the date of grant to January 1, 2011 | 10 years |
| | | 25% from the date of grant to January 1, 2012 | 10 years |
| Total share options at December 31, 2008 and 2009 | <u>37,940,000</u> | | |
| Exercisable at December 31, 2008 | <u>NIL</u> | | |
| Exercisable at December 31, 2009 | <u>9,485,000</u> | | |

c. *Post-IPO share option scheme*

The Company's Post-IPO share option scheme (the "Post-IPO Share Option Scheme") was adopted pursuant to a resolution passed on December 23, 2009 for the primary purpose of providing incentives to directors and eligible employees of the Group, and options can only be offered and granted from December 23, 2009 to December 22, 2019. Under the Post-IPO Share Option Scheme, the directors of the Company and its subsidiaries were granted options to subscribe for shares in the Company. The term of the Post-IPO Share Option Scheme is 10 years from the date of adoption.

On December 23, 2009, options to subscribe 10,600,000 shares were granted. The number of shares in respect of which options had been granted and remained outstanding under the Post-IPO Share Option Scheme as at December 31, 2009 was 10,600,000 (including 9,600,000 shares granted to directors), representing 0.21% of the shares of the Company as at December 31, 2009.

The total number of the Company's shares which may be issued upon exercise of all options to be granted under the scheme and other share option schemes of the Company shall not exceed 10% of the aggregate of the shares of the Company in issue at the Listing Date.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and other share option scheme of the Company must not exceed 30% of the shares in issue from time to time.

The vesting period of the share options is as follows:

25%: from the date of grant to December 23, 2010

25%: from the date of grant to December 23, 2011

25%: from the date of grant to December 23, 2012

25%: from the date of grant to December 23, 2013

The fair values of the share options were calculated using the binominal model. The inputs into the model were as follows:

| | |
|----------------------------------|---|
| Date of grant | December 23, 2009 |
| Share price at the date of grant | RMB7.34 |
| Exercise price | HK\$8.44 |
| Expected volatility | 2.62% |
| Expected life (year) | 10 years with different vesting periods |
| Expected dividend yield | 20% |
| Range of fair value | RMB4.03 to RMB4.46 |

Expected volatility was determined by using the historical volatility of similar listed companies' share prices over the previous one year.

The Group recognised the total expense of RMB430,000 for the year ended December 31, 2009 in relation to share options granted by the Company.

The terms and conditions of the grants that existed during the year are as follows:

| | Number of Options | Vesting Conditions | Contractual life of options |
|-------------------------------------|------------------------------|---|--|
| Share Options granted to directors: | | | |
| - on December 23,2009 | 9,600,000 | 25% from the date of grant to December 23, 2010 | 10 years |
| | | 25% from the date of grant to December 23, 2011 | 10 years |
| | | 25% from the date of grant to December 23, 2012 | 10 years |
| | | 25% from the date of grant to December 23, 2013 | 10 years |
| Share Options granted to employees: | | | |
| - on December 23,2009 | <u>1,000,000</u> | 25% from the date of grant to December 23, 2010 | 10 years |
| | | 25% from the date of grant to December 23, 2011 | 10 years |
| | | 25% from the date of grant to December 23, 2012 | 10 years |
| | | 25% from the date of grant to December 23, 2013 | 10 years |
| Total share options | <u><u>10,600,000</u></u> | | |

39. RELATED PARTY TRANSACTIONS

Apart from the balances with related parties set out in the consolidated statement of financial position, and in notes 23 and 26, during the year, the Group entered into the following significant transactions with its related parties:

(a) Jointly controlled entities

| | 2009 | 2008 |
|--------------------------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| Sales of properties | 35,564 | 6,706 |
| Consultancy fee income | 13,000 | 5,370 |
| Property management income | <u>4,708</u> | <u>3,226</u> |

(b) Associate

| | 2009 | 2008 |
|--|----------------|----------------|
| | RMB'000 | RMB'000 |
| Purchases of property, plant and equipment | <u>—</u> | <u>101</u> |

(c) Minority shareholder of a subsidiary

| | 2009 | 2008 |
|---------------------------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| Consultancy fee expense | — | 2,000 |
| Shareholder's loan interest | <u>—</u> | <u>539</u> |

(d) Key management and shareholders

| | 2009 | 2008 |
|--|----------------|----------------|
| | RMB'000 | RMB'000 |
| Sales of properties to key management and shareholders | <u>33,423</u> | <u>—</u> |

- (e) Amount due from a minority shareholder of a subsidiary as at December 31, 2008 was unsecured, interest-free and repayable based on the progress of development and sale of a property project. The amount had been fully repaid as at December 31, 2009.
- (f) The remuneration paid and payable to the key management of the Company who are also the directors of the Company for the year is set out in note 10.
- (g) On June 30, 2009, the Group issued a financial guarantee of HK\$100,000,000 to a bank in respect of loans granted to a related party, Dujiangyan Qingcheng Co., of which two directors are common to the Company and have beneficial interests. The guarantee has been fully released before December 31, 2009.

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes, where appropriate, the borrowings disclosed in note 27, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to balance its overall capital structure.

41. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|-------------------|
| | RMB'000 | RMB'000 |
| Financial assets | | |
| Available-for-sale investments | 8,600 | 8,600 |
| Loans and receivables (including cash and cash equivalents) | 7,686,018 | 4,709,099 |
| Financial liabilities | | |
| Amortised cost | <u>12,656,244</u> | <u>15,825,357</u> |

b. Financial risk management objectives and policies

The Group's major financial instruments include accounts and other receivables, amounts due from (to) related parties, pledged bank deposits, bank balances and cash, accounts, bills and other payable, and bank and other borrowings. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

c. Market risk

The Group's activities expose primarily to the market risks of changes in interest rates, foreign currency exchange rates risks and other price risk (see below).

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk over the year.

Interest rate risk management

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank and other borrowings which carry at prevailing market interest rates and variable rate based on the interest rates quoted by the People's Bank of China or Hong Kong Interbank Offer Rate plus a premium, respectively.

The Group's fair value interest rate risk relates primarily to pledged bank deposits and bank and other borrowings. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

The sensitivity analyses below have been prepared based on the exposure to interest rates for non-derivative instruments carry at variable rates (bank balances and bank and other borrowings) at the end of the reporting period and assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 200 basis point increase or decrease for bank and other borrowings and a 100 basis point increase or decrease for bank deposit are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the possible change in interest rate in respect of bank and other borrowings and bank deposits respectively.

At the end of the reporting period, if interest rates had been increased/decreased by 200 basis points in respect of bank and other borrowings and all other variables were held constant, the Group's profit would not be affected as interest expenses would be fully capitalised (2008: decrease/increase by RMB14,225,000).

In addition, if interest rate had been increase/decrease of 100 basis points in respect of bank deposits, with all other variables held constant, the Group's profit would increase/decrease by approximately RMB51,012,000 (2008: RMB24,216,000) for the years ended December 31, 2009.

Foreign currency risk management

The Group collects all of its revenue in RMB and most of the expenditures including expenditures incurred in property sales as well as capital expenditures are also denominated in RMB.

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective reporting date are as follows:

| | 2009 | 2008 |
|--------------------|------------------|------------------|
| | RMB'000 | RMB'000 |
| Assets | | |
| USD | 1,020,637 | 98,719 |
| HKD | <u>2,077,520</u> | <u>245,900</u> |
| | 2009 | 2008 |
| | RMB'000 | RMB'000 |
| Liabilities | | |
| USD | — | — |
| HKD | <u>1,086,464</u> | <u>2,036,791</u> |

Foreign currency sensitivity analysis

The Group mainly exposes to foreign exchange fluctuation of USD and HKD against RMB.

The following table details of the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes bank borrowings as well as bank

balances and pledged bank deposits denominated in foreign currencies. A positive/(negative) number indicates an increase/(decrease) in profit for the year where the RMB strengthens against the relevant currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year.

| | <u>2009</u> | <u>2008</u> |
|-------------------------------|-----------------|----------------|
| | <u>RMB'000</u> | <u>RMB'000</u> |
| USD | | |
| Profit for the year | <u>(51,032)</u> | <u>(4,936)</u> |
| HKD | | |
| Profit for the year | <u>(49,553)</u> | <u>89,545</u> |

Other price risks

The Group is exposed to equity price risks through its available-for-sale investments. However, the management considers that the Company's exposure to fluctuation in equity price is minimal.

e. Credit risk management

At each of the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities disclosed in note 37. In order to minimise the credit risk, the monitoring procedures are carried out to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade and other receivables and amounts due from related parties at the end of the reporting period. The amounts presented in the consolidated statement of financial position are net of allowances for bad and doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies or state-owned banks in the PRC.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, amount due from a minority shareholder, and amounts due from jointly controlled entities, the Group has no significant concentration of credit risk, in which exposure is spread over a number of counterparties and customers.

For properties that are presold but development has not been completed, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the purchase price of the individual property. If a purchaser defaults on the payment of its mortgage during the period of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. Under such circumstances, the Group is able to forfeit the sales deposit received and resales the reprocess the properties. Therefore, the management considers it would likely recover any loss incurred arising from the guarantee by the Group. The management considers the credit risk exposure to financial guarantees provided to property purchasers is limited because the facilities are secured by the properties and the market price of the properties is higher than the guaranteed amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

f. Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and the flexibility through the use of borrowings. The directors of the Company closely monitor the liquidity position and expect to have adequate sources of funding to finance the Group's projects and operations.

The following table details the Company's expected remaining contractual maturity for its non-derivative financial liabilities based on agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

To the extent that interest flows are floating rate, the discounted amount is derived from existing at rates at the end of the reporting period.

| | Weighted average interest rate | Carrying amount at December 31, 2009 | 0-60 days | 61 to 180 days | 181 to 365 days | 1-2 years | 2-3 years | Over 3 years | Total undiscounted cash flows |
|---|---|---|------------------|-------------------|--------------------|-----------|-----------|-----------------|-------------------------------------|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-interest bearing | | 2,890,739 | 910,669 | 267,035 | 1,593,035 | 120,000 | — | — | 2,890,739 |
| Fixed interest rate instruments | 5.15% | 2,869,405 | 9,171 | 143,175 | 568,489 | 382,968 | 738,825 | 1,681,400 | 3,524,028 |
| Variable interest rate instruments | 5.61% | 6,896,100 | 351,756 | 2,143,766 | 903,307 | 1,767,858 | 2,206,317 | — | 7,373,004 |
| Financial guarantee contract | | <u>2,686,846</u> | <u>2,686,846</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>2,686,846</u> |

| | Weighted average interest rate | Carrying amount at December 31, 2008 | 0-60 days | 61 to 180 days | 181 to 365 days | 1-2 years | 2-3 years | Over 3 years | Total undiscounted cash flows |
|---|---|---|------------------|-------------------|--------------------|-----------|-----------|-----------------|-------------------------------------|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-interest bearing | | 2,985,606 | 1,755,460 | 458,120 | 470,500 | 301,526 | — | — | 2,985,606 |
| Fixed interest rate instruments | 6.95% | 279,000 | — | 285,379 | — | — | — | — | 285,379 |
| Variable interest rate instruments | 6.87% | 12,560,751 | 2,258,013 | 1,188,287 | 2,935,725 | 5,647,085 | 1,452,890 | — | 13,482,000 |
| Financial guarantee contract | | <u>2,204,667</u> | <u>2,204,667</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>2,204,667</u> |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

g. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial guarantee contracts on initial recognition is determined based on the present value of expected payments when default, where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

Except for the bond with fair value disclosed in note 27, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial positions approximate their respective fair values at the end of the reporting period.

42. PARTICULARS OF THE SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the Company's subsidiaries, jointly controlled entities and associates at December 31, 2009 and 2008 are as follows:

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|---|--|---|--------|---|--------------------|---|
| | | 2009 | 2008 | | | |
| Subsidiary | | | | | | |
| Chongqing Longhu Development Company Limited (note b) 重慶龍湖企業拓展有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB1,308,000,000 Paid up capital RMB1,214,214,000 | PRC | Properties development and investment |
| Chengdu Longhu Jinhua Real Estate Company Limited (note b) 成都龍湖錦華置業有限公司 . . . | PRC | 86.2% | 86.2% | Registered RMB100,000,000 Paid up capital RMB100,000,000 | PRC | Properties development |
| Sichuan Longhu Real Estate Development Company Limited (note b) 四川龍湖地產發展有限公司 . . . | PRC | 85.5% | 85.5% | Registered RMB50,000,000 Paid up capital RMB50,000,000 | PRC | Properties development |
| Chengdu Longhu Property Services Company Limited (note a) 成都龍湖物業服務有限公司 . . . | PRC | 91.04% | 91.04% | Registered RMB5,000,000 Paid up capital RMB5,000,000 | PRC | Properties management |
| Chengdu Yuanbo Gardening Co., Ltd (note a) 成都元博苗木有限公司 | PRC | 93.5% | N/A | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Nursery of seeding tree |
| Chongqing Xinlonghu Properties Services Company Limited (note a) 重慶新龍湖物業服務有限公司 . . . | PRC | 91.3%* | 91.3%* | Registered RMB5,000,000 Paid up capital RMB5,000,000 | PRC | Properties management |
| Chongqing Longhu Properties Company Limited (note b) 重慶龍湖地產發展有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB1,544,912,450 Paid up capital RMB1,544,912,450 | PRC | Properties development and investment |
| Beijing Longhu Properties Company Limited (note b) 北京龍湖置業有限公司 | PRC | 89.9% | 89.9% | Registered RMB1,000,000,000 Paid up capital RMB1,000,000,000 | PRC | Properties development and provision of consultancy service |
| Chongqing Longhu Xijie Real Estate Company Limited (note a) 重慶龍湖西街置業有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB624,000,000 Paid up capital RMB624,000,000 | PRC | Properties development and investment |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|---|--|---|--------|---|-----------------------|---------------------------|
| | | 2009 | 2008 | | | |
| Beijing Longhu Property Service Company Limited (note a) 北京龍湖物業服務有限公司 . . . | PRC | 90.0% | 90.0% | Registered RMB5,000,000 Paid up capital RMB5,000,000 | PRC | Properties management |
| Beijing Longhu Qinghua Property Company Limited (note b) 北京龍湖慶華置業有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB500,000,000 Paid up capital RMB500,000,000 | PRC | Properties development |
| Chongqing Beilonghu Property Company Limited (note b) 重慶北龍湖置地發展有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB700,000,000 Paid up capital RMB700,000,000 | PRC | Properties development |
| Chongqing Juntion Real Estate Development Inc. (note b) 重慶嘉遜地產開發有限公司 . . . | PRC | 93.5% | 93.5% | Registered RMB778,000,000 Paid up capital RMB778,000,000 | PRC | Properties development |
| Chongqing Longhu Hengshang Real Estate Company Limited (note a) 重慶龍湖恒尚地產發展有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB30,000,000 Paid up capital RMB30,000,000 | PRC | Properties development |
| Chengdu Longhu Tongjin Real Estate Company Limited (note b) 成都龍湖同晉置業有限公司 . . . | PRC | 46.6%* | 46.6%* | Registered RMB966,549,865 Paid up capital RMB966,549,865 | PRC | Properties development |
| Chengdu Longhu Jincheng Real Estate Company Limited (note b) 成都龍湖錦城置業有限公司 . . . | PRC | 91.1% | 91.1% | Registered RMB390,000,000 Paid up capital RMB390,000,000 | PRC | Properties development |
| Chengdu Jiaxun Investment Company Limited (“Chengdu Jiaxun”) (note b) 成都佳遜投資有限公司 | PRC | 91.3% | 91.3% | Registered RMB30,000,000 Paid up capital RMB30,000,000 | PRC | Properties development |
| Xi’an Longhu Real Estate Inc. (note a) 西安龍湖地產發展有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB50,000,000 Paid up capital RMB50,000,000 | PRC | Properties development |
| Xi’an Longhu Jincheng Company Limited (note a) 西安龍湖錦城置業有限公司 . . . | PRC | 90.7% | 82.2% | Registered RMB430,000,000 Paid up capital RMB430,000,000 | PRC | Properties development |
| Beijing Huicheng Investment Limited (note b) 北京匯晟投資有限公司 | PRC | 91.3% | 91.3% | Registered RMB10,000,000 Paid up capital RMB10,000,000 | PRC | Properties development |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|---|--|---|--------|---|-----------------------|--|
| | | 2009 | 2008 | | | |
| Chongqing Longhu Yiheng Estate Development Co., Ltd. (note b) 重慶龍湖宜恒地產發展有限公司 | PRC | 46.6%* | 46.6%* | Registered RMB360,000,000 Paid up capital RMB360,000,000 | PRC | Properties development |
| Chongqing Longhu Kaian Real Estate Development Co., Ltd. (note b) 重慶龍湖凱安地產發展有限公司 | PRC | 95.6% | 95.6% | Registered RMB1,278,000,000 Paid up capital RMB1,278,000,000 | PRC | Properties development |
| Chongqing Henghong Investment Inc. (note b) 重慶恒弘投資有限公司 | PRC | 91.3% | 91.3% | Registered RMB10,000,000 Paid up capital RMB10,000,000 | PRC | Properties development |
| Chongqing Rongkai Industrial Company Limited (note b) 重慶融凱實業有限公司 | PRC | 93.5% | 93.5% | Registered RMB698,000,000 Paid up capital RMB698,000,000 | PRC | Properties development |
| Xi'an Longhu Banpo Estate Co. Ltd. (note a) 西安龍湖半坡置業有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB19,610,000 Paid up capital RMB19,610,000 | PRC | Properties development |
| Sichuan Xing Longhu Real Estate Development Company Limited (note a) 四川興龍湖地產發展有限公司 . | PRC | 85.5% | 85.5% | Registered RMB300,000,000 Paid up capital RMB300,000,000 | PRC | Properties development and investment |
| Chengdu Jinteng Trade Company Limited (note a) 成都錦騰貿易公司 | PRC | 93.5% | 93.5% | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Trading of construction materials |
| Xi'an Longhu Xingcheng Estate Co. Ltd. (note a) 西安龍湖興城置業有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB200,000,000 Paid up capital RMB200,000,000 | PRC | Properties development |
| Beijing Longhu Zhongbai Properties Company Limited (note a) 北京龍湖中佰置業有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB1,500,000,000 Paid up capital RMB1,500,000,000 | PRC | Properties development |
| Shanghai Longhu Real Estate Co. Ltd. (note a) 上海龍湖置業發展有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB100,000,000 Paid up capital RMB100,000,000 | PRC | Properties development |
| Longfor Investment Company Limited | The British Virgin Islands (the "BVI") | 100% | 100% | Authorised USD1 Paid up capital USD1 | HK | Investment holding |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|--|--|---|------|--|-----------------------|-------------------------|
| | | 2009 | 2008 | | | |
| Juntion Development Hong Kong (Holding) Limited 嘉遜發展香港(控股)有限公司 . . . | Hong Kong ("HK") | 100% | 100% | Authorised HK\$2,000,000 Paid up capital HK\$2,000,000 | HK | Investment holding |
| Billion Way International Trading Limited 兆安國際貿易有限公司 | HK | 89.9% | N/A | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Fortune Chance Investment Limited 福運投資有限公司 | HK | 100% | N/A | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Fortune Glister Development Limited 富煌發展有限公司 | HK | 100% | N/A | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Grace Dragon Enterprise Limited 龍采企業有限公司 | HK | 100% | N/A | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Joy Wealth Trading Limited 寶欣貿易有限公司 | HK | 91.3% | N/A | Authorised HKD100,000,000 Paid up capital HKD69,687,000 | HK | Investment holding |
| Joyline Corporation Limited 順嘉有限公司 | HK | 100% | N/A | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longfor Land Company Limited 龍湖置地有限公司 | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longfor (Holdings) Company Limited 龍湖(控股)有限公司 | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longfor Property (Group) Company Limited 龍湖地產(集團)有限公司 | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longfor Properties Development Company Limited 龍湖地產發展有限公司 | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|---|--|---|------|---|-----------------------|-------------------------|
| | | 2009 | 2008 | | | |
| Longfor Construction Company Limited 龍湖建設有限公司 | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longfor Hotels (Holdings) Company Limited 龍湖酒店(控股)有限公司 | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longfor Asset Management Company Limited 龍湖資產管理有限公司 | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longfor Properties Management Company Limited 龍湖物業服務有限公司 | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longlake (Holdings) Company Limited | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longhu (Holdings) Company Ltd | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longfor Company Limited | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Longfor Investments Company Limited 龍湖投資有限公司 | HK | 100% | 100% | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Profit Dragon Corporation Limited 潤龍有限公司 | HK | 100% | N/A | Authorised HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Smart Sight Trading Limited 駿景貿易有限公司 | HK | 86.2% | N/A | Authorised HK10,000 Paid up capital HKD1 | HK | Investment holding |
| Sure Fortune Trading Limited 保裕貿易有限公司 | HK | 91.3% | N/A | Registered HKD10,000 Paid up capital HKD1 | HK | Investment holding |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|---|--|---|-------|---|-----------------------|---------------------------|
| | | 2009 | 2008 | | | |
| Win Team Trading Limited 凱盟貿易有限公司 | HK | 91.3% | N/A | Registered HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Jasmine Spread Investment Limited | BVI | 100% | 100% | Authorised USD50,000 Paid up capital USD2 | HK | Investment holding |
| Everbay Investment Limited | BVI | 100% | 100% | Authorised USD50,000 Paid up capital USD2 | HK | Investment holding |
| Fully Grace Group Limited. | BVI | 100% | N/A | Authorised USD50,000 Paid up capital USD1 | HK | Investment holding |
| Silver Oak Enterprises Limited | BVI | 100% | 100% | Authorised USD50,000 Paid up capital USD2 | HK | Investment holding |
| Join Dragon Limited. | BVI | 100% | 100% | Authorised USD50,000 Paid up capital USD2 | HK | Investment holding |
| Shanghai Wanzhuo Investment Limited (note a) 上海萬卓投資有限公司 | PRC | — ** | 100% | Registered RMB50,000,000 Paid up capital RMB50,000,000 | PRC | Properties development |
| Chengdu Xixi Real Estate Company Limited (note a) 成都西璽置業有限公司 | PRC | 91.3% | 27.4% | Registered RMB335,660,000 Paid up capital RMB335,660,000 | PRC | Properties development |
| Chengdu Xixiang Real Estate Company Limited (note a) 成都西祥置業有限公司 | PRC | 91.3% | 27.4% | Registered RMB436,370,000 Paid up capital RMB436,370,000 | PRC | Properties development |
| Beijing Longhu Shidai Properties Company Limited (note a) 北京龍湖時代置業有限公司 | PRC | 91.3% | 91.3% | Registered RMB1,400,000,000 Paid up capital RMB1,400,000,000 | PRC | Properties development |
| Beijing Longhu Tianxing Properties Company Limited (note a) 北京龍湖天行置業有限公司 | PRC | 91.3% | 91.3% | Registered RMB600,000,000 Paid up capital RMB600,000,000 | PRC | Properties development |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|--|--|---|-------|---|--------------------|---|
| | | 2009 | 2008 | | | |
| Beijing Dezhuo Trade Company Limited (note a) 北京德卓貿易有限公司 | PRC | 93.5% | 93.5% | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Trading of construction materials |
| Beijing Longhu Chengheng Decoration Company Limited (note a) 北京龍湖成恒裝飾有限公司 | PRC | 91.3% | 91.3% | Registered RMB2,000,000 Paid up capital RMB2,000,000 | PRC | House decoration |
| Beijing Mengke Properties Co., Ltd. (note a) 北京盟科置業有限公司 | PRC | 91.3% | N/A | Registered RMB28,000,000 Paid up capital RMB28,000,000 | PRC | Properties development and provision of consultancy service |
| Beijing Tongruiwanhua Properties Co., Ltd. (note a) 北京通瑞萬華置業有限公司 | PRC | 93.5% | N/A | Registered RMB10,000,000 Paid up capital RMB10,000,000 | PRC | Properties development |
| Qingdao Longfor Real Estate Development Co., Ltd. (note b) 青島龍湖置業拓展有限公司 | PRC | 100% | N/A | Registered RMB600,000,000 Paid up capital RMB292,911,227 | PRC | Properties development |
| Changzhou Jia'n'an Properties Co., Ltd. (note a) 常州嘉南置業有限公司 | PRC | 85.1% | N/A | Registered RMB50,000,000 Paid up capital RMB50,000,000 | PRC | Properties development |
| Hangzhou Longhu Real Estate Development Co., Ltd. (note c) 杭州龍湖房地產開發有限公司 | PRC | 100% | N/A | Registered USD149,400,000 Paid up capital USD149,400,000 | PRC | Properties development |
| Chengdu Beicheng Real Estate Company Limited (note b) 成都龍湖北城置業有限公司 | PRC | 95.6% | N/A | Registered RMB670,000,000 Paid up RMB341,700,000 | PRC | Properties development |
| Shenyang Longhu Estate Development Co., Ltd. (note b) 瀋陽龍湖房地產拓展有限公司 | PRC | 98.5% | N/A | Registered USD65,000,000 Paid up capital USD65,000,000 | PRC | Properties development |
| Shenyang Longhu Xinbei Properties Co., Ltd. (note b) 瀋陽龍湖新北置業有限公司 | PRC | 100% | N/A | Registered USD98,000,000 Paid up capital USD48,020,000 | PRC | Properties development |
| Chongqing Tianzhuo Investment Company Limited (note a) 重慶天卓投資有限公司 | PRC | 93.5% | 93.5% | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Properties development |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|---|--|---|-------|---|-----------------------|---|
| | | 2009 | 2008 | | | |
| Chongqing Longhu Chengheng Real Estate Development Inc. (note a) 重慶龍湖成恒地產發展有限公司. | PRC | 91.3% | 91.3% | Registered RMB50,000,000 Paid up capital RMB50,000,000 | PRC | Properties development |
| Chongqing Tianlang Agriculture Development Company Limited (note a) 重慶天朗農業發展有限公司 . . . | PRC | 93.5% | N/A | Registered RMB10,000,000 Paid up capital RMB10,000,000 | PRC | Nursery of seeding tree |
| Shanghai Longhu Property Management Company Limited (note a) 上海龍湖物業管理有限公司 . . . | PRC | 91.3% | 91.3% | Registered RMB5,000,000 Paid up capital RMB5,000,000 | PRC | Properties management |
| Shanghai Yujiu Industrial Company Limited (note b) 上海渝久實業有限公司 | PRC | 93.5% | 93.5% | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Trading of construction materials |
| Shanghai Hengchi Real Estate Company Limited (note a) 上海恒馳房地產有限公司 | PRC | 93.5% | 93.5% | Registered RMB1,000,000,000 Paid up capital RMB1,000,000,000 | PRC | Properties development |
| Xi'an Longhu Property Service Company Limited (note a) 西安龍湖物業服務有限公司 | PRC | 91.3% | 91.3% | Registered RMB3,000,000 Paid up capital RMB3,000,000 | PRC | Properties development |
| Xi'an Yeheng Industrial Company Limited (note a) 西安業恒實業有限公司 | PRC | 93.5% | N/A | Registered RMB20,000,000 Paid up capital RMB20,000,000 | PRC | Trading of construction materials |
| Wuxi Longhu Real Estate Inc. (note a) 無錫龍湖置業有限公司 | PRC | 91.3% | N/A | Registered RMB100,000,000 Paid up capital RMB100,000,000 | PRC | Properties development |
| Shanghai Xinrun Garden Virescence Company Limited (note a) 上海莘潤園林綠化有限公司 | PRC | 93.5% | N/A | Registered RMB2,000,000 Paid up capital RMB2,000,000 | PRC | Nursery of seeding tree |
| Top Grand International Enterprise Limited 高宏國際企業有限公司 | HK | 100% | N/A | Registered HKD10,000 Paid up capital HKD1 | HK | Investment holding |
| Treasure State Limited 定邦有限公司 | HK | 100% | N/A | Registered HKD10,000 Paid up capital HKD1 | HK | Investment holding |

| Name of company | Place of incorporation/ establishment | Equity interest attributable to the Group | | Issued and fully paid share capital/ registered capital | Place of operation | Principal activities |
|---|--|---|---------|---|-----------------------|--------------------------------------|
| | | 2009 | 2008 | | | |
| Jointly Controlled Entity | | | | | | |
| Longhu Land Limited (note d) 重慶興龍湖置地發展有限公司 | PRC | 50%# | 50%# | Registered USD27,000,000 Paid up capital USD27,000,000 | PRC | Properties development |
| Chengdu Jia'nan Real Estate Company Limited ("Chengdu Jia'nan") (note d) 成都嘉南置業有限公司 | PRC | 7.2%#+ | 7.2%#+ | Registered RMB382,890,100 Paid up capital RMB382,890,100 | PRC | Properties development |
| Chengdu Tuocheng Real Estate Company Limited ("Chengdu Tuocheng") (note d) 成都拓晟置業有限公司 | PRC | 4.3%#+ | 4.3%#+ | Registered RMB633,495,100 Paid up capital RMB633,495,100 | PRC | Properties development |
| Chengdu Jinghui Real Estate Company Limited ("Chengdu Jinghui") (note d) 成都景匯置業有限公司 | PRC | 4.2%#+ | 4.2%#+ | Registered RMB653,275,800 Paid up capital RMB653,275,800 | PRC | Properties development |
| Chengdu Huixin Real Estate Company Limited ("Chengdu Huixin") (note d) 成都匯新置業有限公司 | PRC | 29.3%#+ | 29.3%#+ | Registered RMB629,993,500 Paid up capital RMB629,993,500 | PRC | Properties development |
| Shanghai Hengrui Real Estate Company Limited (note d) 上海恒睿房地產有限公司 | PRC | 45.7%# | 18.3%# | Registered RMB1,589,000,000 Paid up capital RMB1,589,000,000 | PRC | Properties development |
| Northpole Intermediary Limited | Cayman Islands | 44.4%# | N/A | Registered USD200 Paid up capital USD200 | Cayman Islands | Investment holding |
| Associate | | | | | | |
| Jiaxun Land (China) Company Limited 嘉遜置地(中國)有限公司 (Formerly known as Easeridge Investments Limited). | BVI | 47.4% | 47.4% | Authorised USD50,000 Paid up capital USD100 | HK | Investment holding |
| Ar Ke Er (note e) 埃克爾空調技術(無錫)有限公司 | PRC | 20% | 20% | Registered USD1,250,000 Paid up capital USD100 | PRC | Production of air conditioning |

Notes:

- (a) The subsidiary is a domestic wholly-owned enterprise established in the PRC.
- (b) The subsidiary is an equity joint venture established in the PRC.
- (c) The subsidiary is a wholly foreign owned enterprise established in the PRC.
- (d) The jointly controlled entity is an equity joint venture established in the PRC.
- (e) The associate is a wholly foreign owned enterprise established in the PRC.

None of the subsidiaries had issued any debt securities at December 31, 2009, except for Chongqing Longhu Development Company Limited which has issued RMB1,400 million bonds, in which the Group has no interest.

- * These companies are subsidiaries held by Chongqing Longhu Development, a subsidiary in which the Company has 91.3% equity interest at December 31, 2009 and 2008. These companies are indirectly controlled subsidiaries of the Company. Therefore, the Company could exercise the control over these companies through Chongqing Longhu Development, though the effective beneficial interests attributable to the Company in these companies are calculated at less than 50% based on the effective interest holding percentage.
- # These companies were accounted for as jointly controlled entities as at respective period end date as in accordance with the memorandum and the articles of the companies, major financial and operating policies of these companies required the unanimous consent of all the directors.
- ** The entity was disposed of during the year (note 32)
- + These jointly controlled entities are held directly by Chengdu Jiaxun, a non-wholly owned subsidiary of the Company. The interests of Chengdu Jia'nan, Chengdu Tuocheng, Chengdu Jinghui and Chengdu Huixin directly held by Chengdu Jiaxun are 7.84%, 4.74%, 4.50% and 32.05% respectively. Pursuant to the relevant joint venture agreements, the Group is entitled to share 10% of profit of these jointly controlled entities.

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|---|---|--|--|
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