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花樣年

FANTASIA

Fantasia Holdings Group Co., Limited

花樣年控股集團有限公司

(於開曼群島註冊成立的有限公司)

(股份代號：01777)

公告

本海外監管公告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)條頒佈。

茲提述花樣年控股集團有限公司(「本公司」)日期為2010年4月28日及2010年5月5日有關發行票據的公告(「該等公告」)。除非另有註明，否則本公告內所有詞彙具有該等公告所界定的涵義。

請參閱隨附有關票據的發售備忘錄(「發售備忘錄」)，該發售備忘錄已於2010年5月13日登載於新加坡證券交易所有限公司的網站。

於聯交所網站登載發售備忘錄僅為方便向香港投資者作出相同的資料發佈及遵守上市規則第13.09(2)條及並無任何其他目的。

發售備忘錄不構成於任何司法權區向公眾提呈發售任何證券的招股章程、通告、通函、冊子或廣告，亦並非就提呈認購或購買任何證券而向公眾作出的要約，且不旨在邀請公眾提出認購或購買任何證券的要約。

發售備忘錄不應被視為誘使認購或購買本公司任何證券及並不擬構成該等勸誘。概不應根據發售備忘錄所載的資料作出投資決定。

承董事會命
花樣年控股集團有限公司
潘軍
主席

香港，2010年5月13日

於本公告刊發日期，本公司執行董事為潘軍先生、曾寶寶小姐、馮輝明先生及陳思翰先生；本公司獨立非執行董事為何敏先生、廖長江先生(太平紳士)、黃明先生及許權先生。

US\$120,000,000



FANTASIA

FANTASIA HOLDINGS GROUP CO., LIMITED

(incorporated in the Cayman Islands with limited liability)

14% Senior Notes due 2015

Issue Price: 98.264%

plus, in each case, accrued interest, if any, from the issue date

Our 14% Senior Notes due 2015 (the “Notes”) will bear interest from May 12, 2010 at 14% per annum payable semi-annually in arrears on May 12 and November 12 of each year, beginning November 12, 2010. The Notes will mature on May 12, 2015.

The Notes are senior obligations of Fantasia Holdings Group Co., Limited (the “Company”), guaranteed by certain of our existing subsidiaries (the “Subsidiary Guarantors”), other than (1) those organized under the laws of the PRC and (2) certain other subsidiaries specified in the section entitled “Description of the Notes.” We refer to the guarantees 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.

At any time and from time to time prior to May 12, 2013, we may redeem up to 35% of the Notes, at a redemption price of 114% 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 (if any), the Subsidiary Guarantors and the JV Subsidiary Guarantors, 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 below). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) and the pledge of any collateral. See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral.”

For a more detailed description of the Notes, see the section entitled “Description of the Notes.”

Investing in the Notes involves risks. See the section entitled “Risk Factors” beginning on page 15.

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 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) 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 “U.S. 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 U.S. 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 U.S. Securities Act provided by Rule 144A (“Rule 144A”), and (2) outside the United States in compliance with Regulation S under the U.S. Securities Act (“Regulation S”). For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions.”

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 May 12, 2010 in New York, New York against payment therefor in immediately available funds.

Joint Lead Managers and Joint Bookrunners

Citi

BofA Merrill Lynch

UBS Investment Bank

The date of this offering memorandum is May 5, 2010

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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, CITIGROUP CAPITAL MARKETS INC., 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. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF CITIGROUP CAPITAL MARKETS INC., AND NOT FOR US OR ON OUR BEHALF.

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.

Notwithstanding anything to the contrary contained herein, a prospective investor (and each employee, representative, or other agent of a prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this offering memorandum and all materials of any kind that are provided to the prospective investor relating to such tax treatment and tax structure (as such terms are defined in Treasury Regulation section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

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 Citigroup Global Markets Inc., Merrill Lynch International and UBS AG (the “Initial Purchasers”) or any of their 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 any person affiliated with the Initial Purchasers 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 our company 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 or the Initial Purchasers.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been approved or disapproved by the United States Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

Prospective purchasers are hereby notified that sellers of the securities, including the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. 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 securities, including the Notes, 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 securities, including the Notes, 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.

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Notes to be issued from time to time by the Company 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 persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), 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 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 (6) months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:
 - (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or (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;
 - (2) where no consideration is or will be given for the transfer;
 - (3) where the transfer is by operation of law; or
 - (4) as specified in Section 276(7) of the SFA.

We reserve the right to withdraw the offering of 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 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 RSA 421-B 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”, the “Group” and words of similar import, we are referring to Fantasia Holdings Group Co., Limited itself, or Fantasia Holdings Group Co., Limited and its consolidated subsidiaries, as the context requires.

Market data, industry forecast and the 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 our 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 the 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 (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 (“Hong Kong” or “HK”); and all references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China (“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 RMB6.8259 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 31, 2009, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK\$7.7536 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 31, 2009. 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,” in the context of statistical information and description of laws and regulations in this offering memorandum, except where the context otherwise requires, do not include Hong Kong, Macau Special Administrative Region of the PRC (“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.

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) which differ in certain respects from generally accepted accounting principles in certain other countries. The material differences between HKFRS and generally accepted accounting principles in the United States (“U.S. GAAP”), are described in the section entitled “Summary of Certain Differences between HKFRS and U.S. GAAP.”

Unless the context otherwise requires, references to “2007,” “2008” and “2009” in this offering memorandum are to our financial years ended December 31, 2007, 2008 and 2009, respectively.

References to “share” are to, unless the context indicates otherwise, an ordinary share, with a nominal value of HK\$0.1, in our share capital.

References to the “Reorganization” are to the corporate reorganization we underwent shortly before our initial public offering and listing of our shares on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”, “Stock Exchange” or “HKSE”), in November 2009 (“our IPO”).

References to “Pre-IPO investment” are to the investment made by us, certain investors and our controlling shareholders through subscription of our shares and Pre-IPO bonds for a total consideration of US\$200 million, pursuant to a subscription agreement dated December 12, 2007, as amended (the “Subscription Agreement”).

References to “Pre-IPO bond” are to the US\$100 million secured bonds with an interest of 12% per annum, issued by us pursuant to the Subscription Agreement.

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 (“GFA”) information presented in this offering memorandum represent the site area and GFA of the entire project, including those attributable to the minority shareholders of our non-wholly owned project companies. References to “sq.m.” are to the measurement unit of square meters.

In this offering memorandum, unless the context otherwise requires, all references to “affiliate” are to 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 (the “Listing Rules”), which includes: (i) a “subsidiary undertaking” as defined in the twenty-third schedule to the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Companies Ordinance”), (ii) any entity which is accounted for and consolidated in the audited consolidated accounts of another entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable, and (iii) any entity which will, as a result of acquisition of its equity interest by another entity, be accounted for and consolidated in the next audited consolidated accounts of such other entity as a subsidiary pursuant to HKFRS or International Financial Reporting Standards, as applicable; all references to “associate” are used with the meaning ascribed thereto under the Listing Rules, which includes: (i) in relation to an individual, his spouse and children under the age of 18, certain trustees, his or his family holding companies, as well as companies over which he, his family, trustee interests and holding companies exercise at least 30% voting power, (ii) in relation to a company, its subsidiaries, its holding companies, subsidiaries of such holding companies, certain trustees, as well as companies over which such company

and its subsidiaries, trustee interests, holding companies and subsidiaries of such holding companies together exercise at least 30% voting power and (iii) in the context of connected transactions, certain connected persons and enlarged family members of a director, chief executive or substantial shareholder of a listed issuer; and all references to “controlling shareholder” are used with the meaning ascribed thereto under the Listing Rules, including any person or group of persons who are entitled to exercise 30% or more of the voting power at our general meetings or are in a position to control the composition of a majority of our board of directors, and “controlling interest” will be construed accordingly.

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 (國有土地使用權證) 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 (建設工程規劃驗收合格證) 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 (國有土地使用權證) 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.

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to such rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

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 held for future development;
- 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, availability and cost of financing, and pre-sale, pricing 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 held for future development;
- 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 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 and 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 U.S. 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, as amended (the “U.S. Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, for so long as any such Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act. So long as any of the Notes remains outstanding, we will provide to the Trustee for forwarding to the holders of the Notes our semi-annual and annual financial statements.

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability, and each Subsidiary Guarantor and JV Subsidiary Guarantor (if any) is also incorporated or may be incorporated, as the case may be, outside the United States, such as the British Virgin Islands (the “BVI”) and Hong Kong. The Cayman Islands, BVI, Hong Kong and other jurisdictions have different bodies of securities laws from the United States and protections for investors may differ.

All of our assets and all of the 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 of 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 directors and officers or to enforce against us or any of the Subsidiary Guarantors or such directors and officers 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.

We and each of the Subsidiary Guarantors expect to appoint CT Corporation System as our and their respective agent to receive service of process with respect to any action brought against us or any Subsidiary Guarantor in the United States federal courts located in the Borough of Manhattan, The City of New York under the federal securities laws of the United States or of any state of the United States or any action brought against us or any Subsidiary Guarantor in the courts of the State of New York in the Borough of Manhattan, The City of New York under the securities laws of the State of New York.

We have been advised by our Cayman Islands legal adviser, Conyers Dill & Pearman, that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment *in personam* obtained in the United States courts 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 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.

We have also been advised by our PRC legal counsel, Commerce & Finance Law Offices, that there is uncertainty as to whether the courts of China would (i) enforce judgments of U.S. courts obtained against us, our directors or officers, any Subsidiary Guarantor or JV Subsidiary Guarantor or their directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (ii) entertain original actions brought in China against us, our directors or officers, any Subsidiary Guarantor or JV Subsidiary Guarantor or their directors or officers predicated upon the U.S. federal or state securities laws.

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 leading property developer and property related service provider in China. We are the only property company in China with members of our Group being ranked among the 2009 China Top 100 Real Estate Developers (2009中國房地產百強企業), the 2009 China Top 100 Real Estate Agencies (2009中國房地產策劃代理百強企業) and the 2009 China Top 100 Property Management Companies (2009中國物業服務百強企業) by the China Real Estate Top 10 Research Team¹. In 2010, we were also ranked among the 2010 China Top 100 Real Estate Developers (2010中國房地產百強企業) and the 2010 China Top 100 Real Estate Agencies (2010中國物業服務百強企業). We first commenced our property development business in Shenzhen in 1996. Leveraging on our broad experience and capabilities, we have successfully expanded into, and currently focus our real estate activities on, four fast-growing economic regions in China, including the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region.

Our target customers are affluent middle- to upper-class individuals and families and high-growth small- to medium-sized enterprises. We envisage that the demand for properties designed for these customers will increase as such customers' household income and purchasing power continue to rise. To cater to the diverse needs of our target customers, we develop a portfolio of property development projects with a focus on the following:

- *Urban Complexes*

Our urban complexes are mostly located in the peripheral areas of existing central business districts in major cities such as Shenzhen and Chengdu or in the emerging new business districts designated under city development plans of local governments. These complexes integrate various types of properties, such as offices, apartments, retail shops and/or boutique hotels, into a single property development project. For example, our urban complex Chengdu Hailun Plaza (成都喜年廣場), which has received several awards, became the tallest building and a local landmark in Chengdu when completed in December 2009, and we believe our Meinian International Plaza (美年國際廣場) is one of the largest urban complexes currently under development in Chengdu.

- *Boutique Upscale Residences*

Our boutique upscale residences are located in urban and suburban areas with natural scenic surroundings or cultural landmarks. They are connected by roads or expressways to the centers of major metropolitan areas. These boutique upscale residences include high- and low-rise apartment buildings, townhouses and stand-alone houses and cater to the residential and investment needs of

1. *The China Real Estate Top 10 Research Team started research on the Top 100 Real Estate Enterprises in the PRC in 2004. Its research has been quoted by various Hong Kong and PRC-listed companies in their prospectuses and annual reports. Data used by the China Real Estate Top 10 Research Team includes data derived from survey completed by the individual real estate companies, publicly available information of the individual real estate companies, statistical data from institutions such as China Real Estate Index System (中國房地產指數系統), Real Estate Searching Academy (搜房研究院) and China Villas Index System (中國別墅指數系統) as well as data from relevant government ministries and bureaus. The research takes into account factors such as the size, profitability, debt payment ability, growth potential, operating efficiency and social responsibility of the target companies. Only companies that meet certain standards may be included in the Survey. Such standards include, in the case of property developers, a minimum of RMB300 million in annual revenue or 100,000 in annual square meters sold for three consecutive years, in the case of property management companies, the grant of the first class qualification by the relevant government authorities or in the case of property agency services companies, more than 100,000 annual square meters sold for three consecutive years as to their primary property agency services. The China Real Estate Top 10 Research Team conducts analysis on 500 property developers, 500 property management companies and 200 property agency services companies annually, and has awarded 100 awards to property developers, 50 awards to property management companies and 50 awards to property agency services companies in connection with its annual ranking.*

our high-end consumers. We typically develop our boutique upscale residential projects in several phases so that we can manage our capital resources more efficiently and increase the average selling price as the project becomes more developed and attractive to our customers. Examples of such boutique upscale residential projects include Grand Valley (大溪谷), a large scale residential complex that is adjacent to a planned ecological and sports park in Pujiang County of Chengdu, and Chengdu Mont Conquerant (成都君山), a large scale residential community located in a famous tourist attraction in Xinjin County of Chengdu, Yixing Town on the Water (雲海間), adjacent to the Hengshan Reservoir which is the one of the six largest reservoirs in Jiangsu province, and Dongguan Mont Conquerant (東莞君山), adjacent to the Fengjing Golf Course.

As of March 31, 2010, our portfolio of land bank consisted of 58.9% of boutique upscale residences, 28.4% of urban complexes and 12.7% of other properties in terms of GFA. We plan to continue to focus our property development activities on developing a portfolio of products that cater to our target customers across four of China's most economically prosperous regions. We plan to achieve this objective by continuing to selectively acquire low-cost land in the four regions. We conduct comprehensive and in-depth market research and analysis on the land that we intend to acquire and its surrounding areas. We consider the geographic as well as marketing factors when evaluating a target parcel, including development potentials, size and suitability of the land for developments that can fit into our existing portfolio, convenience and availability of infrastructure support, purchasing power of our potential customers in relevant areas, development costs and estimated return on investment. We budget for the cost of land acquisition as well as the overall development costs, which are subject to strict internal procedures and are closely monitored and adjusted throughout the construction process. Acquisition proposal is reviewed and approved by the relevant personnel of our Group, including our chief executive officer and our board of directors. We usually acquire land using our own capital within a pre-set budget and arrange project loans with banks in China at a later stage to support the subsequent development of the property.

In addition to our property development business, we also provide property operation services, property agency services and hotel services to our own properties and properties of third parties. We believe such property related services enable us to strengthen our property development capabilities. For example, our property operation services enhance the value of our properties while our property agency services enable us to maximize our marketing and selling efforts. We plan to continue to enhance such real estate services that we offer and to further enhance the intrinsic synergies between our real estate products and services. We will in particular focus on enhancing our property operation services and hotel services which we believe will serve as relatively stable and growing revenue sources to our Group on the one hand, and will continue to increase the attractiveness and the average selling price of the properties developed by us on the other.

We have received numerous accolades for our property development and services capabilities. Our wholly-owned subsidiary, Fantasia Group (China) Co., Ltd., won the 2008 Corporate Citizen Award of Golden Brick for Real Estate of China (中國地產金磚獎2008年度中國地產企業公民大獎) presented by the Boao 21st Century Real Estate Forum (博鰲21世紀房地產論壇) and the 21st Century Economy Review (21世紀經濟報導). Our subsidiary, Fantasia (Chengdu) Development Co., Ltd., was awarded the Real Estate Corporate of the Year for the Golden Hibiscus Prize (2008金芙蓉杯成都地產年度企業金獎) in Chengdu in 2008 by Chengdu Real Estate Bureau (成都市房地產管理局) and Sichuan Daily Press Group (四川日報報業集團). Our property development projects have also won numerous awards and recognitions for their design and quality. For example, our project Shenzhen Future Plaza (深圳香年廣場) won the 2008 Real Estate Design Award of Golden Brick for Real Estate of China (中國地產金磚獎2008年度地產設計大獎) presented by the Boao 21st Century Real Estate Forum (博鰲21世紀房地產論壇) and the 21st Century Economy Review (21世紀經濟報導). Chengdu Hailun Plaza (成都喜年廣場), our urban complex project which is under development, was recognized as the Star Property of the Year and the Driving Force of Real Estate Industry in Chengdu in 2008 (2008成都房地產推動力大獎年度明星樓盤) and won the Ginkgo Prize as the Office Building with the Greatest Industrial Momentum in Chengdu in 2008 (銀杏杯2008成都最具行業推動力寫字樓大獎) presented by Chengdu Media Group (成都傳媒集團) and Chengdu Television Station (成都電視臺), respectively. Self Life (趣園), our completed residential project in Shenzhen, was awarded the Golden Bull Prize in 2005 (2005年度金牛獎), one of the most prestigious awards in the real estate industry in Shenzhen, by the Shenzhen Construction Industry Association (深圳市建築業協會).

As of March 31, 2010, we had a total of 31 projects at various stages of development (i.e. completed projects, projects under development and projects held for future development), including 12 projects located in the Chengdu-Chongqing Economic Zone (including Dali Project), 14 projects located in the Pearl River Delta region, three projects located in the Yangtze River Delta region and two projects located in the Beijing-Tianjin metropolitan region. In addition, as of March 31, 2010, we had entered into preliminary framework agreements for four projects.

As of March 31, 2010, we had a total land bank of approximately 10,775,077 square meters, which consists of:

- an aggregate planned GFA of approximately 5,749,960 square meters of properties for which we had obtained the land use rights (consisting of an aggregate planned GFA of approximately 1,373,146 square meters of properties under development and an aggregate planned GFA of approximately 4,376,814 square meters of properties held for future development for which we have obtained land use rights); and
- an aggregate planned GFA of approximately 5,025,117 square meters of properties for which we had entered into preliminary framework agreements but had not obtained the land use rights or property rights. The preliminary framework agreements are legally binding but, before we are able to obtain the relevant land use right certificates, we are still required by the relevant PRC laws and regulations: (i) in respect of our Pixian and Yunnan Projects, to successfully complete the public tender, auction or listing-for-sale process, enter into a land grant contract and pay relevant land grant premium; (ii) in respect of our Beijing Tongzhou Project, to enter into and perform our obligations under a formal share transfer agreement and duly complete registration procedures for such transfer of equity ownership with the relevant government authorities; and (iii) in respect of our Suzhou Taihu Hotel Project, to invest at least 25% of the total capital required for the project or fulfill such other conditions as may be determined by the relevant government authorities of Suzhou and, where necessary, complete the required listing-for-sale and public notice procedures on the basis that project is currently a state-owned asset.

In April 2010, we entered into a framework agreement to purchase 100% equity interests in Shenzhen Gaohua Investment Limited, which holds certain parcels of land in Guilin City. Completion of such acquisition is conditional upon fulfillment of a number of conditions, including, among others, completion of necessary procedures for Shenzhen Gaohua Investment Limited to have legal ownership in each of the project companies holding the relevant parcels of land in Guilin City and the underlying land use rights and obtaining corporate and other approval for such acquisition.

Of our total land bank as of March 31, 2010, approximately 8,469,267 square meters, or 78.6%, were located in the Chengdu-Chongqing Economic Zone (including Yunnan Project and Dali Project); approximately 1,097,717 square meters, or 10.2%, were located in the Pearl River Delta region; approximately 853,413 square meters, or 7.9%, were located in the Yangtze River Delta region; and approximately 354,680 square meters, or 3.3%, were located in the Beijing-Tianjin metropolitan region. We develop most of our properties, including properties that are currently under development, for sale but will hold certain of these developed properties for investment.

For each of the years ended December 31, 2007, 2008 and 2009, our revenue was RMB772.1 million, RMB1,174.2 million and RMB2,458.7 million (US\$360.2 million), respectively. Our revenue for the three years ended December 31, 2009 consisted of revenue derived from (i) the sales of our developed properties, (ii) the lease of our investment properties, (iii) the provision of property agency and related services, (iv) the provision of property operation and related services, (v) the provision of hotel management and related services, and (vi) other operations. The following table sets forth our revenue for each of the components described above and the percentage of total revenue represented for the periods

indicated with the fluctuations of the percentage due primarily to the different product mix delivered to customers in respective period:

	For the Year Ended December 31,						
	2007		2008		2009		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Property development	619,168	80.2	1,064,604	90.7	2,322,037	340,180	94.4
Non-residential properties ⁽¹⁾	13,643	1.8	517,768	44.1	1,590,451	233,002	64.7
Residential properties	605,525	78.4	546,836	46.6	731,586	107,178	29.7
Property investment	10,649	1.4	11,029	0.9	10,806	1,583	0.4
Property agency services	97,151	12.6	40,224	3.5	57,775	8,464	2.3
Property operation services.	41,857	5.4	57,875	4.9	63,900	9,361	2.6
Hotel services	–	–	479	0.0	4,155	609	0.3
Others	3,232	0.4	–	–	–	–	–
Total	<u>772,057</u>	<u>100.0</u>	<u>1,174,211</u>	<u>100.0</u>	<u>2,458,673</u>	<u>360,197</u>	<u>100.0</u>

Note:

(1) Comprised of commercial and industrial properties and car parking spaces.

Our Competitive Strengths

We believe that our primary competitive strengths are our:

- property development portfolio strategically located across four of China’s most economically prosperous regions;
- ability to acquire land at low cost;
- strong business model with track record of success;
- well-known brand name;
- strong value-accretion property development and service capabilities; and
- experienced and stable management team with proven track record supported by seasoned professional employees.

Our Business Strategies

Our business strategies are to:

- continue to expand in fast-growing economic regions in China and selectively acquire low-cost land;
- focus on further improving the intrinsic synergies of our real estate products and services;
- continue to improve our property operation service and hotel service capabilities to further increase the attractiveness and value of our properties; and
- continue to promote our brand names.

General Information

We were incorporated in the Cayman Islands on October 17, 2007, as an exempted company with limited liability. Our shares have been listed on the Stock Exchange of Hong Kong Limited since November 25, 2009. Our principal place of business in the PRC is at 27/F, Block A, Hailrun Complex, No. 6021 Shennan Boulevard, Shenzhen, Guangdong Province, China. Our place of business in Hong Kong is at Room 1103, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our website is www.cnfantasia.com. Information contained on our website does not constitute part of this offering memorandum.

THE OFFERING

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

Issuer	Fantasia Holdings Group Co., Limited (the “Company”).
Notes Offered	US\$120,000,000 aggregate principal amount of 14% Senior Notes due 2015 (the “Notes”).
Offering Price	98.264% of the principal amount of the Notes.
Maturity Date	May 12, 2015.
Interest	The Notes will bear interest from and including May 12, 2010 at the rate of 14% per annum, payable semi-annually in arrears.
Interest Payment Dates	May 12 and November 12 of each year, commencing November 12, 2010.
Ranking of the Notes	The Notes are: <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 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 on a senior basis, subject to certain limitations described under the caption “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral” and “Description of the Notes — The 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 therefore; and• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries. After the pledge of the Collateral by the Company and the Subsidiary Guarantor Pledgors and subject to certain limitations described under “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and Collateral,” the Notes will: <ul style="list-style-type: none">• be entitled to a first priority lien on the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors (subject to any Permitted Liens);

- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).
- rank effectively senior in right of payment to unsecured obligations of the Subsidiary Guarantor Pledgors with respect to the value of the Collateral pledged by each Subsidiary Guarantor Pledgor securing the Notes (subject to priority rights of such unsecured obligations pursuant to applicable law).

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.

A Subsidiary Guarantee may be released in certain circumstances. See “Description of the Notes — Release of the Subsidiary Guarantees.”

The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than (i) those Restricted Subsidiaries organized under the laws of the PRC and (ii) Talent Bright International Ltd., Fantasia Property Management (International) Co., Precise Idea Ltd., Fantasia Hotel Management (International) Co., Winning Sky International Ltd. and Hong Kong Kongnian Trading Co., Ltd.

All of the initial Subsidiary Guarantors are holding companies that do not have significant operations or real property assets. See “Risk Factors — Risks Relating to, 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.”

Any future Restricted Subsidiary, as defined under “Description of the Notes — Certain Definitions” (other than subsidiaries organized under the laws of the PRC), will provide a guarantee of the Notes promptly upon becoming a Restricted Subsidiary.

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).

After the pledge of the Collateral (as described below) by the Company and the Subsidiary Guarantor Pledgors, the Subsidiary Guarantees of each Subsidiary Guarantor Pledgor:

- will be entitled to a first ranking security interest in the Collateral pledged by such Subsidiary Guarantor Pledgor (subject to any permitted liens); and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee.

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

Ranking of JV Subsidiary Guarantees

A JV Subsidiary Guarantee instead of a Subsidiary Guarantee may be provided by a Subsidiary Guarantor following a sale by the Company or any of its Restricted Subsidiaries of Capital Stock in such Subsidiary Guarantor, where such sale is for no less than 20% and no more than 49.9% of the issued Capital Stock of such 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 therefore;
- 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 of 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).

Security to be Granted The Company has agreed, for the benefit of the holders of the Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of each initial Subsidiary Guarantor (collectively, the “Collateral”) in order to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor may incur Permitted Pari Passu Secured Indebtedness which would be secured by the Collateral on a pari passu basis with the Notes and the Subsidiary Guarantees. See “Description of the Notes — Security.”

Use of Proceeds. We intend to use the proceeds of the offering of the Notes as follows:

- approximately US\$92.6 million to fund existing and new property projects (including construction costs and land premium); and
- approximately US\$23.2 million for general corporate purposes

We may adjust our acquisition and development plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest such net proceeds in “Temporary Cash Investments” as defined under “Description of the Notes.”

Optional Redemption. At any time, 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 defined herein) as of, and accrued and unpaid interest, if any, to the redemption date.

At any time and from time to time prior to May 12, 2013, the Company may redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 114% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date, with the proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

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 repurchase date.

Redemption for Taxation Reason	Subject to certain exceptions and as more fully described herein, the Company may redeem the Notes, as a 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 obligated to pay certain additional amounts as a result of certain changes in specified tax laws or certain other circumstances. See “Description of the Notes — Redemption for Taxation Reasons.”
Covenants	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>These covenants are subject to a number of important qualifications and exceptions described in “Description of the Notes — Certain Covenants.”</p>
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 minimum denominations of US\$100,000 of principal amount 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 May 12, 2010 which the Company expects will be the fifth business day following the date of this offering memorandum referred to as “T+5”. You should note that initial trading of the Notes may be affected by the T+5 settlement. See “Plan of Distribution.”
United States Federal Income Taxation . . .	The Notes will be treated as issued with original issue discount for U.S. federal income tax purposes. In general, a U.S. Holder (as defined below) of a Note must include original issue discount in income as ordinary interest for United States federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such holders’ regular method of tax accounting. See “Taxation — U.S. Federal Income Taxation”.
Trustee	Citicorp International Limited
Paying Agent and Note Registrar	Citibank, N.A., London Branch
Listings	Approval-in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST.
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. The relevant pledge documents will be governed under the laws of the jurisdiction in which the relevant Subsidiary Guarantor is incorporated.
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>
	Restricted		
	Global Notes	30727QAA9 US30727QAA94	050763579
	Regulation S		
	Global Notes	G3311LAA2 USG3311LAA29	050763749

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated statement of comprehensive income data for 2007, 2008 and 2009 and the summary consolidated balance sheet data as of December 31, 2007, 2008 and 2009 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by Deloitte Touche Tohmatsu (“Deloitte”), the independent certified public accountants, and included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions. See the section entitled “Summary of Certain Differences Between HKFRS and U.S. GAAP” for a brief summary as specified therein. The summary financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Summary Consolidated Statement of Comprehensive Income and Other Financial Data

	For the Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Revenue	772,057	1,174,211	2,458,673	360,197
Costs of sales	(549,220)	(704,734)	(1,431,812)	(209,762)
Gross profit	222,837	469,477	1,026,861	150,435
Other income, gains and losses	2,726	59,034	26,566	3,892
Gain on fair value changes of investment properties	86,875	13,807	34,476	5,051
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	2,170	302	–	–
Selling and distribution expenses	(39,616)	(49,837)	(80,480)	(11,790)
Administrative expenses	(94,458)	(162,677)	(177,229)	(25,964)
Finance costs	(12,167)	(69,941)	(51,800)	(7,589)
Impairment loss recognized in respect of goodwill	–	(2,305)	–	–
Share of results of associates	(1,548)	(3,789)	(1,899)	(278)
Profit before taxation	166,819	254,071	776,495	113,757
Income tax expenses	(82,552)	(156,550)	(407,050)	(59,633)
Profit and total comprehensive income for the year	<u>84,267</u>	<u>97,521</u>	<u>369,445</u>	<u>54,124</u>
Profit and total comprehensive income for the year attributable to:				
Owners of the Company	68,797	84,259	373,469	54,714
Minority interests	15,470	13,262	(4,024)	(590)
	<u>84,267</u>	<u>97,521</u>	<u>369,445</u>	<u>54,124</u>
Earnings per share – Basic	0.02	0.02	0.10	0.02
Other Financial Data				
EBITDA ⁽¹⁾	96,600	313,346	788,536	115,521
EBITDA margin ⁽²⁾	13%	27%	32%	32%

- (1) *EBITDA for any period consists of profit from operating activities before fair value gains on the investment properties and impairment loss recognized in respect of goodwill plus depreciation and amortization expenses. EBITDA is not a standard measure under HKFRS. 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. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. 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 under HKFRS 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,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Non-current Assets				
Property, plant and equipment	36,181	50,504	163,530	23,957
Investment properties	459,039	476,079	581,368	85,171
Interests in associates	6,650	11,248	12,941	1,896
Advance to an associate	65,377	58,240	72,396	10,606
Prepaid lease payments	9,052	1,561	164,457	24,093
Premium on prepaid lease payments	—	—	45,794	6,709
Prepayment	—	—	70,586	10,341
Deposits paid for acquisition of subsidiaries	—	—	423,000	61,970
Deposits paid for acquisition of a property project	—	—	352,056	51,576
Deferred tax assets	14,560	41,531	88,818	13,012
	<u>590,859</u>	<u>639,163</u>	<u>1,974,946</u>	<u>289,331</u>
Current Assets				
Properties for sales	2,027,853	3,769,841	4,576,936	670,525
Prepaid lease payments	256	112	4,704	689
Premium on prepaid lease payments	—	—	1,428	209
Trade and other receivables	213,575	145,739	987,961	144,737
Amount due from a shareholder	8	21	—	—
Amounts due from customers for contract works	6,141	1,349	3,808	558
Amounts due from related parties	10,340	26,856	—	—
Held-for-trading investments	—	3,000	—	—
Tax recoverable	21,331	30,346	17,503	2,564
Restricted bank deposits	18,032	37,849	189,712	27,793
Bank balances and cash	1,320,657	303,046	3,696,488	541,539
	<u>3,618,193</u>	<u>4,318,159</u>	<u>9,478,540</u>	<u>1,388,614</u>

	As of December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Current Liabilities				
Trade and other payables	337,257	566,116	873,797	128,012
Deposits received for sale of properties	1,126,332	1,092,459	2,380,242	348,707
Amounts due to directors	27,456	54,012	–	–
Amounts due to related parties	2,892	99,340	1,519	223
Loans from shareholders	–	683,460	–	–
Tax payable	158,441	229,787	544,877	79,825
Borrowings – due with one year	317,943	373,050	1,266,320	185,517
	<u>1,970,321</u>	<u>3,098,224</u>	<u>5,066,755</u>	<u>742,284</u>
Net Current Assets	<u>1,647,872</u>	<u>1,219,935</u>	<u>4,411,785</u>	<u>646,330</u>
Total Assets less Current Liabilities	<u>2,238,731</u>	<u>1,859,098</u>	<u>6,386,731</u>	<u>935,661</u>
Non-current Liabilities				
Deferred tax liabilities	56,538	58,991	32,280	4,729
Amounts due to related parties	–	–	99,340	14,553
Loans from shareholders	730,460	–	–	–
Borrowings – due after one year	49,930	353,750	2,173,750	318,456
	<u>836,928</u>	<u>412,741</u>	<u>2,305,370</u>	<u>337,738</u>
	<u>1,401,803</u>	<u>1,446,357</u>	<u>4,081,361</u>	<u>597,923</u>
Capital and Reserves				
Share capital	9	9	429,389	62,906
Reserves	<u>1,058,985</u>	<u>1,145,955</u>	<u>3,340,870</u>	<u>489,440</u>
Equity attributable to owners of the Company	<u>1,058,994</u>	<u>1,145,964</u>	<u>3,770,259</u>	<u>552,346</u>
Minority interests	<u>342,809</u>	<u>300,393</u>	<u>311,102</u>	<u>45,577</u>
	<u>1,401,803</u>	<u>1,446,357</u>	<u>4,081,361</u>	<u>597,923</u>

RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information contained in this offering memorandum before making an investment decision. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition or results of operations. If any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.

Risks Relating to Our Business

We rely heavily on the strong performance of the property market in China, particularly in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region

Our growth in the past has benefited from the strong demand for properties in China, particularly in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region, where a majority of our past and current property development projects are located. As we intend to continue to focus our efforts in these four regions, we will continue to depend in the near future on the continuous growth and performance of the property market in such regions. Market demand for residential and commercial properties and office spaces could be affected by various factors, including the general economic environment and any macro-economic control measures implemented by the PRC government, many of which are beyond our control. We cannot assure you that such demand will continue to grow or remain at previous levels in the future, especially in light of the current global financial and economic crisis. See “— We may be adversely affected by the slowdown of China’s economy caused by the recent global financial and economic crisis.” Any adverse developments in the supply and demand of properties or in property prices in China, particularly in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region, could have a material adverse effect on our business, financial condition and results of operations.

Increasing competition in the PRC, particularly in the Chengdu-Chongqing and Pearl River Delta regions, may adversely affect our business and financial condition

Sales in the Chengdu-Chongqing and Pearl River Delta regions accounted for approximately 52.3% and 36.7% of our total contracted sales in 2009. In recent years, an increasing number of property developers have begun property development in Chengdu-Chongqing and Pearl River Delta regions and elsewhere in the PRC. These include overseas property developers (including a number of leading Hong Kong property developers), and developers from other parts of the PRC, some of which may have better track records and greater financial and other resources than us. The intensity of the competition between property developers for land, financing, raw materials and skilled management and labor resources, in regions or cities where we operate, in particular, in the Chengdu-Chongqing and Pearl River Delta regions, may result in increased costs for the acquisition of land for development, an oversupply of properties in certain parts of the PRC, including the Chengdu-Chongqing and Pearl River Delta regions, a decrease in property prices and a slowdown in the rate at which new property developments will be approved and/or reviewed by the relevant government authorities, any of which may adversely affect our business and financial position. In addition, the property market in the Chengdu-Chongqing and Pearl River Delta regions and elsewhere in the PRC is rapidly changing. If we cannot respond to changes in market conditions more swiftly or more effectively than our competitors, our business, results of operations and financial condition could be adversely affected.

We may not have adequate capital resources to fund our land acquisitions and property developments

Property development is capital intensive. We principally fund our property developments from a combination of internal funds, borrowings from banks, proceeds from sales and pre-sales of our properties, capital contributions from shareholders and proceeds from issuance of equity securities, such as our IPO in November 2009. Our ability to secure sufficient financing for land acquisition and property development depends on a number of factors that are beyond our control, including market conditions in debt and equity capital markets, investors' perception of our securities, lenders' perception of our creditworthiness, the PRC economy and the PRC regulations that affect the availability and finance costs for real estate companies.

Various PRC regulations restrict our ability to raise capital through external financing and other methods, including without limitation, the following:

- we cannot pre-sell uncompleted units in a project prior to achieving certain development milestones;
- PRC banks are prohibited from extending loans to real estate companies for the purposes of funding the purchase of land use rights;
- we cannot borrow from a PRC bank for a particular project unless we fund at least 20% of the estimated total capital required for that project from our own capital;
- we cannot borrow from a PRC bank for a particular project unless we obtain the land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit for that project;
- PRC banks are restricted from granting loans for the development of luxury residential properties;
- property developers are strictly prohibited from using the proceeds from a loan obtained from a local bank to fund property developments outside the region where that bank is located; and
- PRC banks are prohibited from accepting properties that have been vacant for more than three years as collateral for loans.

In addition, the People's Bank of China (the "PBOC") increased the reserve requirement ratio for commercial banks several times prior to June 25, 2008, from 7.5% as of July 5, 2006 to 17.5%. From June 2008 to December 2008, the PBOC decreased the reserve requirement ratio for commercial banks four times, from 17.5% to 14.5%. As of February 25, 2010, the reserve requirement ratio was 16.5%. Changes in the reserve requirement ratio affect the amount of funds that banks must hold in reserve against deposits made by their customers. Any future increase in such reserve requirement ratio will reduce the amount of commercial bank credit available to businesses in China, including us. In November 2009, the PRC government raised the minimum down payment for land premiums to 50% and now requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions. Such change of policy may constrain our cash otherwise available for additional land acquisition and construction.

The PRC government may introduce other measures that limit our access to additional capital. For example, in November 2007, China Banking Regulatory Commission (the "CBRC") provided policy guidelines to the PRC banks and Chinese subsidiaries of foreign banks that loans outstanding as of December 31, 2007 should not exceed the level of outstanding loans as of October 31, 2007. This lending freeze may limit our ability to access additional loans or to rollover existing loans as they mature, and may also prevent or delay potential customers' ability to secure mortgage loans to purchase residential properties. In addition, on July 10, 2007, the General Department of the State Administration of Foreign Exchange (the "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) which restricts a foreign invested property developer's ability to raise capital through foreign debt, if such developer is established after June 1, 2007 or increases its registered capital after June 1, 2007. Under this circular, our ability to utilize the proceeds of this offering to provide funding to our PRC operations is further limited. See "Regulation — Summary of PRC Laws Relating to the Property Sector — Legal Supervision Relating to Property Sector in the PRC — Property Credit" to this prospectus for further details.

We cannot assure you that we will be able to renew our current credit facilities or obtain sufficient funding to finance intended purchases of land use rights, develop future projects or meet other capital needs as and when required at a commercially reasonable cost or at all. Failure to obtain adequate funding at a commercially reasonable cost may limit our ability to commence new projects or to continue the development of existing projects. Such failure may also increase our finance costs.

We may be adversely affected by the slowdown of China's economy caused by the recent global financial and economic crisis

Since early 2008, there has been a significant deterioration in the U.S. and global economy, which may worsen or be prolonged. In addition, liquidity has contracted significantly. China's economy has experienced a similar economic slowdown. The slowdown in economic activities in China has affected and may continue to affect consumer and business spending generally, which may result in decreased demand for real estate properties or services. As a result of this slowdown in economic activities in China, certain of our projects that were scheduled to begin pre-sale in 2008 were delayed until 2009 or 2010, and the expected average selling price of our properties were also adjusted downward in response to the economic slowdown. The PRC government has announced in November 2008 an economic stimulus package in the amount of RMB4.0 trillion and adopted other macroeconomic measures and monetary policies. While the PRC government and governments around the world have taken remedial actions to address the economic slowdown and financial market crisis, there can be no assurance that these actions will be effective. It is difficult to determine the continued impact of the global economic slowdown and financial crisis on the property industry in China due to its unprecedented nature. Although global economic conditions have improved, there is no assurance that such improved conditions can be sustained. If the global economic slowdown and financial market crisis continue or become more severe than currently anticipated, our business prospects, revenues, cash flows and financial condition could be materially and adversely affected.

Our business may be adversely affected by changes in interest rates

We rely on borrowings to finance a substantial part of our project developments. Currently, our borrowings primarily consist of loans from commercial banks in China. Many of our customers also need to finance their purchase of our properties through mortgage loans. Interest rates in the PRC have decreased several times recently. In 2008, the PBOC lowered the benchmark one-year lending rate five times from 7.47% in January to 5.31% in December in response to the current global financial and economic crisis. We cannot assure you that the PBOC will further decrease the benchmark one-year lending rate or that the interest rates at which financing will be available to us or our customers will continue to decrease in the future. In addition, we cannot predict if and when interest rate in the PRC may begin to increase. Any increase in the interest rates will increase our finance costs and also increase the costs of our customers to purchase our properties with mortgages and therefore adversely affect our business, financial conditions and results of operation. See "— The terms on which mortgages are available, if at all, may affect our sales."

We may not always be able to obtain land sites that are suitable for property development within our budget

We derive a significant portion of our revenue from sales of properties that we have developed. This revenue stream depends on the completion of, and our ability to sell, our properties. To maintain or grow our business in the future we will need to replenish our land reserves with suitable development sites. Our ability to identify and acquire suitable land sites is subject to a number of factors, some of which are beyond our control. Our business, financial condition and results of operations may be materially and adversely affected if we are unable to obtain land sites for development at prices that allow us to achieve reasonable returns upon the sale of developed properties to our customers.

The PRC government controls all new land supply in the PRC and regulates land sales in the secondary market. As a result, the policies of the PRC government towards land supply may adversely affect our ability to acquire land use rights for sites we seek to develop and could increase the costs of any acquisition. The PRC central and local governments may regulate the means by which property developers, including us, obtain land sites for property developments. In recent years, the PRC government has promulgated policies that restrict banks from granting loans to finance the construction of luxury residential properties and limit or prohibit the supply of land available for projects such as villa-style developments, low density housing developments and golf courses. Although we will continue to seek suitable development opportunities, the current or future regulatory climate may restrict our ability to engage in such developments in the future. See also “— Risks Relating to Our Industry — PRC government policies, regulations and measures intended to curtail the overheating of the property market may adversely affect our business.”

We have entered into several preliminary framework agreements for potential new property development projects which are subject to significant risks and uncertainties

As of March 31, 2010, we had entered into preliminary framework agreements for four potential new projects with a total site area of approximately 2,054,400 square meters and an aggregate planned GFA of approximately 5,025,117 square meters with third parties or with local governments in which the projects are located. There are significant risks with respect to these potential new projects as further agreements are required to be entered into in order for us to obtain the respective land use rights for the land parcels specified in the preliminary framework agreements. In addition, in order to obtain the land use rights for two of these potential new projects (Pixian Project and Yunnan Project), we will be required to go through public tender, auction or listing-for-sale processes in accordance with the relevant PRC regulations. We may not be able to successfully obtain the land use rights for the lands specified in the preliminary framework agreements through such processes or obtain the land use rights that can be used for the same purpose as those indicated in the preliminary framework agreements. If we fail to obtain the land use rights certificates for these parcels of land or other parcels of land in which we may acquire an interest in the future, we will not be able to develop and sell properties on such land. We may not be able to acquire replacement parcels of land on terms acceptable to us, or at all, which could have a material adverse effect on our future prospects, business, financial condition and results of operations.

Further, we may not be able to enter into future agreements to obtain the land parcels due to reasons that are beyond our control. Changes in the PRC regulatory environment or policies or changes in the general economic environment or property market in China may result in the other parties' unwillingness or inability to implement the transactions contemplated under the preliminary framework agreements, or result in changes to the general understanding of the preliminary framework agreements that may be adverse to us, including changes in the price of the land use rights to the specified land parcels. The preliminary framework agreements may not be considered as enforceable by the relevant PRC courts for the purpose of entering into future agreements to obtain the relevant land parcels. If we cannot obtain the relevant land parcels contemplated under the preliminary framework agreements in accordance with the understanding of the preliminary framework agreements or at all, our business and future prospects could be materially and adversely affected.

We face uncertainties when obtaining land sites through the acquisition of project companies

As of the date of this offering memorandum, in addition to increasing our land bank through public tender, auction and listing-for-sale, we have obtained land sites for nine of our projects through acquisition of project companies that held the land use rights. We may continue to obtain land sites through such acquisitions in the future. We cannot assure you that we have discovered, or will be able to discover, all existing or potential liabilities of the target project companies. In addition, the government may change the permitted use of the land sites to which such project companies own the land use rights after our acquisitions, rendering the land sites unsuitable for our property development purposes. If any of the undiscovered existing or potential liabilities of the acquired project companies are found to be material, or if we are unable to develop properties on the land sites to which the acquired project companies have the land use rights, our business, financial conditions and results of operations may be materially and adversely affected. In addition, we may acquire such project companies for an amount that is less than their fair market value, resulting in gains recognized on our consolidated statements of comprehensive income. However, such gains do not give rise to any change to our cash position and therefore we may experience constraints on our liquidity even though our profitability increased.

Our results of operations may be materially and adversely affected if we fail to obtain, or there are material delays in obtaining, requisite governmental approvals for our property developments

The property industry in the PRC is heavily regulated by the PRC government. Property developers in China must comply with various requirements mandated by national and local laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, at various stages of the property development, a property developer must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities including a land use rights certificate, a construction land planning permit, a construction works planning permit, a construction works commencement permit and a pre-sale permit or confirmation of completion and acceptance. Each approval may depend on the satisfaction of certain conditions. See “Regulation — Development of a Property Project.” We cannot assure you that we will not encounter material delays or other impediments in fulfilling the conditions precedent to the approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the property industry in general or the particular processes with respect to regulatory approvals. There may also be delays on the part of the relevant regulatory bodies in reviewing our applications and granting approvals. If we fail to obtain, or encounter material delays in obtaining, the requisite governmental approvals, the completion of our developments and sale of our properties could be substantially disrupted or delayed and any such disruption or delay would materially and adversely affect our business, results of operations and financial condition. Furthermore, the relevant regulatory bodies may not approve the development plans for our projects and we may need to amend such development plans to obtain the necessary permits. Amendment to our development plans may have a material and adverse effect on our business and results of operations.

We face intense competition with respect to our property development, property operation services, property agency services and hotel services businesses

The property industry in the PRC is highly competitive and we face competition as to our property development business from major domestic developers and, to a lesser extent, foreign developers primarily from other countries or regions in Asia, including several leading developers from Hong Kong. Competition among property developers may increase the costs for land acquisitions and raw materials and administrative costs for hiring or retaining qualified personnel, result in shortages of skilled contractors and oversupply of properties, decrease property prices in certain parts of the PRC, and slowdown the rate at which new property developments will be approved and/or reviewed by the relevant government authorities, any of which may adversely affect our business and financial condition. In addition, the PRC government’s recent measures designed to reduce land supply further increased competition for land among property developers. Certain of our competitors are well capitalized and have greater financial, marketing and other resources than we have. Some also have larger land banks, greater economies of scale, better brand recognition, longer track record and more established relationships with contractors, suppliers and customers in certain markets. Such property developers may be able to respond to changes in market conditions more promptly and effectively than we can, or may be more competitive in acquiring land through auction or other processes. If we are unable to maintain a competitive position with respect to the acquisition of land, adapt to changing market conditions or otherwise compete successfully with our competitors, our prospects, business, financial condition and results of operations may be materially and adversely affected.

In addition, we face intense competition as to our property operation services business, property agency services business and hotel services business at the national, regional and local levels. Competition in such businesses is based on quality of services, brand name recognition, geographic coverage, commission rates and range of services. Unlike property development business, such businesses have a low entry barrier and do not require significant capital commitments. This low entry barrier allows new competitors to enter into the market with relative ease. New and existing competitors may offer competitive rates, greater convenience or superior services, which could attract our customers away from us. Competition among companies providing such services may cause a decrease in commission rates and higher costs to attract or retain talented employees. Furthermore, our relative competitive position varies significantly by service type and geographic area. Certain of our competitors may be smaller than us but may be more established and have greater market presence and brand name

recognition on a local or regional basis, while certain competitors are large national and international firms that may have more financial or other resources than us. If we fail to compete effectively, our property operation services business, property agency services business and hotel services business may suffer and our results of operations may be materially and adversely affected. For our property agency services, in addition to competition from traditional property agency service providers, the advent of the internet has introduced new ways of providing property services, as well as new entrants and competitors in our industry. If our property agency business is not successful in developing strategies to address such challenges and to capture the business opportunities presented by technological changes and the emergence of e-business, our property agency business and our results of operations could be materially and adversely affected.

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

Most of our purchasers 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.

The CBRC issued a regulation on September 2, 2004 to limit mortgage loans on properties to no more than 80% of the sale price of the underlying properties. On March 17, 2005, the PBOC set forth the minimum interest rate for property mortgage loans to 0.9 times the corresponding benchmark lending rates, resulting in an increase in the minimum interest rate for mortgages. In May 2006, the PRC government increased the minimum amount of down payment to 30% of the purchase price for properties with a GFA of more than 90 square meters. In September 2007, the minimum down payment for any purchase of second or subsequent residential property was increased to 40% of the purchase price if the purchaser had obtained a bank loan to finance the purchase of his or her first property. Moreover, the interest rate for bank loans for such purchases shall not be less than 110% of the PBOC benchmark lending rate of the same term and category. For further purchases of properties, there would be upward adjustments on the minimum down payment and interest rate for any bank loan. In addition, mortgagee 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 December 2007, the PBOC and CBRC issued another notice to clarify that, in determining the applicability of the relevant restrictions, the number of mortgage loans deemed to have been borrowed by a borrower shall include mortgage loans borrowed by any member of his or her family. In October 2008, in response to the global financial and economic crisis, the PBOC decreased the minimum amount of down payment for residential property purchases to 20% and reduced the minimum interest rate for mortgage loans for such purchases to 70% of the benchmark lending rate. However, despite such decrease in lending requirements, certain PRC banks have implemented their own internal restrictive conditions which limited the number of borrowers that can take advantage of the reduced requirements as announced by the PBOC. On April 17, 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 square meters. Further, pursuant to such notice, interest rate for mortgage loans of second homes cannot be lower than 110% of PBOC benchmark lending rate. See "Regulation — Mortgages of Property." In the event that mortgage loans for property purchases becomes more difficult to obtain or that the costs of such financing increases, many of our prospective customers who rely on such financing may not be able to purchase our properties, which in turn will materially and adversely affect our business, financial condition and results of operations.

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 and practices that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and these banks would not accept any alternative guarantees by other third parties, or if no third party is available in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks during pre-sales. Such difficulties in financing could result in a substantially lower rate of pre-sales of our properties, which could adversely affect our business, financial condition and results of operations. We are not aware of any impending changes in laws, regulations, policies or practices which will prohibit such practice in the PRC. However, we cannot assure you that such changes in laws, regulations, policies or practices will not occur in the future.

Changes in laws and regulations in relation to pre-sale of properties may adversely affect our business, financial condition and results of operations

Proceeds from the pre-sales of our properties are an important source of funds for the respective property developments and have an impact on our cash flow and liquidity position. On August 5, 2005, the PBOC proposed in a report entitled “2004 Real Estate Financing Report (2004中國房地產金融報告)” that the practice of pre-selling uncompleted properties be discontinued, on the grounds that such practice creates significant market risks and generates transactional irregularities. While such proposal has not been adopted by any PRC government authorities and has no mandatory effect, we cannot assure you that the PRC government will not ban or impose material limitations on presales of uncompleted properties in the future. Future implementation of any restrictions on our ability to pre-sell our properties, including any requirements to increase the amount of up-front expenditure we must incur prior to obtaining the pre-sale permit, would extend the time required for recovery of our capital outlay and would force us to seek alternative means to finance the various stages of our property development. This, in turn, could have a material and adverse effect on our business, financial condition and results of operations.

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

We make certain undertakings in our pre-sale contracts. Our pre-sale contracts and the PRC laws and regulations provide for remedies for breach of these undertakings. For example, if we pre-sell units in a property development and we fail to complete that development, we will be liable to the purchasers for their losses. If we fail to complete a pre-sold property on time, we may be liable to the relevant purchasers for such late delivery under the relevant pre-sale contracts or pursuant to relevant PRC laws and regulations. If our delay extends beyond a specified period, the purchasers may terminate their pre-sale contracts and claim for damages. A purchaser may also terminate his or her contract with us if the GFA of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3% from the GFA of that unit set out in his or her contract. We cannot assure you that we will not experience delays in the completion and delivery of our properties, nor that the GFA for a delivered unit will not deviate more than 3% from the GFA set out in the relevant pre-sale contract.

We cannot assure you that services performed by independent contractors will always meet our quality standards and timing requirement or will be available within our budget

We engage independent contractors to provide various services, including but not limited to construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. We generally select independent contractors through an open tender process. We cannot assure you that we will be able to obtain services from independent contractors within our budget or at all, or the services rendered by any of these independent contractors or subcontractors will always be satisfactory or meet our quality and safety standards and our timing requirement. If the performance of any independent contractor is not satisfactory or is delayed, we may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of our projects. Moreover, 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 could have a material adverse effect on our business, financial condition and results of operations.

If we are not properly insulated from the rising cost of labor, construction materials or building equipment, our results of operations may be adversely affected

As the 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 experienced substantial increases in recent years. In addition, the PRC Labor Contract Law (中華人民共和國勞動合同法) that came into effect on January 1, 2008 enhanced the protection for employees and increased employers' liability which may further increase our labor costs. Under the terms of most of our construction contracts, the construction contractors are responsible for the wages of construction workers and procuring construction materials for our property development and bear the risk of fluctuations in wages and construction material prices during the term of the relevant contract. However, we are 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 over several years, or if we choose to hire the construction workers directly or purchase the construction materials directly from suppliers. We are also exposed to the price volatility of building equipment used in properties developed by us because we usually procure such equipment ourselves. Furthermore, we typically pre-sell our properties prior to their completion and we will be unable to pass the increased costs on to purchasers of our properties if the construction costs increase subsequent to the time of such pre-sale. If we are unable to pass on any increase in the cost of labor, construction materials and building equipment to either our construction contractors or to the purchasers of our properties, our results of operations may be negatively affected.

We may be subject to legal and business risks if we fail to obtain, renew or keep necessary qualification certificates for our property development, property operation services, hotel services, property investment and property agency services businesses

Property developers in the PRC must obtain a qualification certificate in order to engage in property development businesses in the PRC. Property developers in the PRC must also produce a valid qualification certificate when they apply for a pre-sale permit. According to the Provisions on Administration of Qualifications of Property Developers (房地產開發企業資質管理規定), 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 before its provisional qualification certificate expires. All formal qualification certificates are subject to verification on an annual basis. If the newly established property developer fails to commence a property development project within the one-year period when the provisional qualification certificate is in effect, it will not be allowed to extend its provisional qualification certificate. It is mandatory under government regulations that developers fulfill all statutory requirements before obtaining or renewing their qualification certificates. See "Regulation -Qualifications of a Property Developer."

As of March 31, 2010, we had 21 project companies that were, or expected to be, engaged in the property development business, of which eight had obtained formal qualification certificates, eight had obtained provisional qualification certificates, and five were in the process of applying for relevant qualification certificates. Of the 16 project companies that had obtained formal or provisional qualification certificates, four were in the process of applying for the renewal of the relevant qualification certificates. If any of our project companies that are, or expect to be, engaged in property development business is unable to meet the relevant requirements and therefore unable to obtain or renew its provisional qualification certificate, obtain its formal qualification certificate when its provisional qualification certificate expires, or pass the annual verification of its formal qualification certificate, such project company will be given a deadline within which it has to meet these requirements and it will also be subject to a penalty of between RMB50,000 and RMB100,000. Failure to meet the requirements within the deadline 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 pass the annual verification of the qualification certificates of each of our project companies or that we will be able to renew our provisional qualification certificates or obtain formal qualification certificates in a timely manner, or at all, as and when the provisional qualification certificates expire.

Our PRC subsidiaries engaged in the property operation services (including property management services, building equipment installation, maintenance and repair services and information network services), hotel services and property investment businesses are required to obtain relevant qualification certificates from competent PRC government agencies for the provision of their services and some such qualification certificates are subject to annual verifications. As of March 31, 2010, all of our PRC subsidiaries engaged in the property operation services, hotel services and property investment businesses had obtained or were in the process of obtaining the required qualification certificates. If we are to establish additional subsidiaries to expand our property operation services, hotel services and property investment businesses in the future, those subsidiaries will also need to obtain relevant qualification certificates. We cannot assure you that our PRC subsidiaries engaged in the property operation services, hotel services and property investment businesses will be able to pass the annual verification of their qualification certificates or that we will be able obtain new qualification certificates for our subsidiaries that may engage in the property operation services, hotel services and property investment businesses in the future.

We are also subject to numerous national, regional and local laws and regulations specific to the property agency services performed by our subsidiary, Shenzhen Xingyan Property Consultancy Co., Ltd. (“Xingyan Property Consultancy”). If we fail to properly file records or to obtain or maintain the licenses and permits for conducting property agency services, Xingyan Property Consultancy may be ordered to cease conducting the relevant real estate services and be subject to warning, fines and revocation of its licenses. As the size and scope of real estate transactions have increased significantly during the past several years, both the difficulty of ensuring compliance with the multiple levels of licensing regimes and the possible loss resulting from non-compliance have increased. In addition, the PRC government amended the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) in December 2007 and included property agency services into the category of businesses that are restricted for foreign investments. Although the current scope of our business operations is in full compliance with such catalogue, this revision would subject us to approvals of higher-level governmental authorities and heightened scrutiny if we want to expand our property agency business by acquiring other property agency companies, establishing new subsidiaries to provide property agency services or increasing our investment in Xingyan Property Consultancy. We cannot assure you that we will be able to obtain such approvals when we want to expand our property agency business. See the section entitled “Regulation.”

If our PRC subsidiaries engaged in the property operation services, hotel services and property investment and property agency services businesses are unable to obtain, renew or keep their qualification certificates, they may not be permitted to continue their business, which could materially and adversely affect our business, financial condition, results of operations and reputation.

We may not be able to complete our property development projects on time or within our budget or at all

Property development projects require substantial capital expenditures prior to and during the construction period and the construction of a property project may take longer than a year before it generates positive cash flows through pre-sales, sales or leases. The progress and costs for a property development project can be adversely affected by many factors, including, without limitation:

- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;
- relocation of existing residents and/or demolition of existing structures;
- unforeseen engineering, design, environmental or geographic problems;
- shortages of materials, equipment, contractors and skilled labor;
- labor disputes;
- construction accidents;
- natural catastrophes;

- adverse weather conditions;
- discovery of artifacts in the construction site; and
- changes in government policies.

Construction delays or failure to complete the construction of a project according to its planned specifications, schedule or budget as a result of the above factors may affect our financial condition and results of operations and may also cause damage to our reputation. In addition, if a pre-sold property development is not completed on time, the purchaser may be entitled to damages for late delivery. We cannot assure you that we will not experience any significant delays in completion or delivery or that we will not be subject to any liabilities for any such delays. If the delay extends beyond the contractually specified period, the purchaser would be entitled to terminate the purchase contract and claim damages. Therefore, any delay in completion of our property developments could have a material adverse impact on our business, financial condition and results of operations.

We may not be successful in expanding our business into new geographical regions or cities

Historically, our revenues were mainly derived from our property development projects and the provision of various property services in the Pearl River Delta region and Chengdu-Chongqing Economic Zone. Since 2008, we have significantly expanded our business into markets such as Tianjin in the Beijing-Tianjin metropolitan region and Yixing in the Yangtze River Delta region. We may expand into additional cities in these regions or expand into new regions in the future. Such new regions or cities may differ from our existing markets in terms of the level of economic development, demography, topography, property trends and regulatory practices. Therefore, we may not be able to replicate our successful business model in our existing markets to these other regions or cities. In addition, as we enter into new markets, we may not have the same level of familiarity with contractors, business practices and customs and customer tastes, behavior and preferences. Therefore, we may not be able to successfully leverage our existing experience to expand our property development, property operation services business, property agency services business and hotel services business into these other markets. We may also face intense competition from other developers, other companies that provide property operation services and other property agency companies with more established experience or presence in those markets.

We may expand our business into new segments of the property industry which may not be successful

We may expand our business into new segments of the property industry in the PRC as well as continue to expand the property services businesses that we currently operate. While we have accumulated experience in property development and in providing property operation services and property agency services, we cannot assure you that we will be able to leverage such experiences and replicate our historical success when entering into new businesses. For example, we entered into the hotel services business in December 2008, in which we have limited experience. Although we currently do not have any plans to enter into other new segments of the real estate industry, we may do so in the future. The expansion of our existing property services businesses and the expansion into new businesses may require a significant amount of capital investment and involve various risks and uncertainties including the risk of operating in a new environment, the difficulties of integrating new businesses into our existing businesses and the diversion of resources and attention of our management. Any failure to address these risks and uncertainties may adversely affect our business, financial condition and results of operations.

We may not be able to successfully manage our growth

We have been rapidly 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

additional financing from external sources. Further, 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 operational locations or difficulties in expanding our existing business and operations and training an increasing number of personnel to manage and operate the expanded business. Neither can we assure you that our expansion plans will not adversely affect our existing operations and thereby have a material adverse effect on our business, financial condition, results of operations and future prospects.

The illiquid nature and the lack of alternative uses of investment properties could limit our ability to respond to adverse changes in the performance of our properties

Investment properties are relatively illiquid compared to other types of investments such as publicly traded equity securities. As a result, our ability to promptly sell one or more of our investment properties in response to changing economic, financial and investment conditions is limited. The property market is affected by many factors that are beyond our control, including general economic conditions, the availability of mortgage financing and interest rates, and we cannot accurately determine the market price of our investment properties nor are we able to predict whether we will be able to sell any of our investment properties at the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. In addition, investment properties may not be readily convertible for alternative uses without substantial capital expenditure if the original function of such investment property became unprofitable due to competition, age, decreased demand or other factors. Similarly, for certain investment properties to be sold, substantial capital expenditure may be required to correct defects or make improvements to the property due to factors such as change in building regulations or as a result of age, compounding the effort and time required. These factors and any others that would impede our ability to respond to adverse changes in the performance of our investment properties could materially and adversely affect our business, financial condition and results of operations.

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

We provide property management services through our subsidiary Shenzhen Xingyan Property Management Co., Ltd. (“Shenzhen Fantasia Management”) to our own developed projects and the projects of other developers. We believe that property management is an integral part of our business and critical to the successful marketing and promotion of our property developments as well as an important source of revenue. Under the PRC laws and regulations, owners of the same residential community of certain scale have the right to change the property management service provider upon the consent from a certain percentage of the owners of such community. If owners of the properties that we manage choose to terminate our property management services, or property buyers dislike our property management services, our reputation and results of operations could be materially and adversely affected.

Any failure to protect our brand and trademarks could have a negative impact on our business

We believe our brands and trademarks are critical to our success. Any unauthorized use of our brands, trademarks and other intellectual property rights could harm our competitive advantages and business. Historically, China has not protected intellectual property rights to the same extent as certain other countries, and infringement of intellectual property rights continues to pose a serious risk of doing business in China. Monitoring and preventing unauthorized use is difficult. The measures we take to protect our intellectual property rights may not be adequate. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially.

If the value of our brand or image diminishes, our business and results of operations may be materially and adversely affected

Our brands and images play an integral role in all of our business operations. Our continued success in maintaining and enhancing our brands and images depends to a large extent on our ability to satisfy customer needs by further maintaining and improving our product quality or quality of services across our operations, as well as our ability to respond to competitive pressures. If we are unable to satisfy customer needs or if our public image or reputation were otherwise diminished, our business transactions with our customers may decline which could in turn adversely affect our results of operations.

In addition, as we provide property operation services and property agency services to third party developers, our brand and images may be adversely affected as a result of significant quality defects in the properties developed by third party developers or negative publicity or other problems related to third party developers. The ability of our subsidiary to successfully sell or manage the properties of such third party developers may be materially and adversely affected, which may in turn adversely affect our long-term ability to attract purchasers for the properties we are contracted to sell, including those properties developed by us, or to attract management opportunities in respect of the properties developed by third party developers.

Our indebtedness could have an adverse effect on our financial condition, diminish our ability to raise additional capital to fund our operations and limit our ability to explore business opportunities

We maintain a certain level of indebtedness to finance our operations. As of March 31, 2010, the outstanding balance of our total debt (including aggregate outstanding borrowings and amounts due to related parties) amounted to RMB3,994.0 million (US\$585.1 million). Our indebtedness described above could have an adverse effect on us, such as:

- requiring us to dedicate a large portion of our cash flow from operations to fund repayments on our debt, thereby reducing the availability of our cash flow to expand our business;
- increasing our vulnerability to adverse general economic or industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- limiting our ability to raise additional debt or equity capital in the future or increasing the cost of such funding;
- restricting us from making strategic acquisitions or exploring potential business opportunities; and
- making it more difficult for us to satisfy our obligations with respect to our debt.

We have incurred and will continue to incur a significant amount of finance costs in relation to our indebtedness. A significant portion of our finance costs are capitalized rather than being expensed at the time it is incurred to the extent such costs are directly attributable to the acquisition and construction of a project or a projected phase. The capitalized finance cost under completed properties for sale was approximately RMB29,000, RMB22.4 million and RMB6.5 million (US\$1.0 million) as of December 31, 2007, 2008 and 2009, respectively. The capitalized finance cost for properties for sale — under development was approximately RMB8.3 million, RMB29.7 million and RMB151.6 million (US\$22.2 million) as of December 31, 2007, 2008 and 2009, respectively. Our capitalized finance cost included in our cost of sales in 2007, 2008 and 2009 was RMB5.5 million, RMB13.5 million and RMB24.7 million (US\$3.6 million), respectively.

In addition, as our indebtedness will require us to maintain an adequate level of cash flow from operations to satisfy our debt obligations as they become due, any decrease in our cash flow from operations in the future may have a material and adverse effect on our financial condition.

We guarantee mortgage loans provided to our purchasers and may be liable to the mortgagee banks if our purchasers default on their mortgage loans

We arrange for various domestic banks to provide mortgage loans to the purchasers of our properties. According to market practice, domestic banks require us to guarantee these mortgage loans until the relevant property ownership certificates are issued, which generally takes place within one to two years after we deliver possession of the relevant property to the purchasers, or until the loans are fully repaid, at which time such guarantees are released. In line with industry practice, we do not conduct independent credit checks on our customers but rely instead on the credit checks conducted by the mortgagee banks. As of December 31, 2007, 2008 and 2009, our outstanding guarantees on the mortgage loans of our purchasers amounted to RMB661.2 million, RMB719.3 million, RMB1,626.3 million (US\$238.3 million), respectively, which were approximately 15.7%, 14.5%, and 14.2%, respectively, of our total assets, respectively. The default rate on the mortgage loans provided to the purchasers of our properties against the total guarantees we provided in connection with such mortgage loans was approximately 0.02% during the three year period ended December 31, 2009. In the same period, we incurred a total loss of approximately RMB0.5 million on our guarantees of mortgage loans due to default on the underlying mortgage loans by certain purchasers of our properties. If a purchaser defaults under the mortgage loan and the mortgagee bank calls on our relevant guarantee after it deals with the relevant property through a default auction, we are required to repay the outstanding amount owed by the purchaser to the mortgagee bank under the mortgage loan, the mortgagee bank will assign its rights under the loan and the mortgage to us and we have full recourse to the property. Our business, results of operations and financial condition could be materially and adversely affected to the extent that there is a material depreciation in the value of the mortgaged properties or if we are unable to re-sell such properties due to unfavorable market conditions or other reasons.

Our results of operations may fluctuate from period to period

Our results of operations tend to fluctuate from period to period. The number of properties that we can develop or complete during any particular period may be limited due to the substantial capital required for land acquisition and construction, as well as the lengthy development periods required before positive cash flows may be generated. In addition, several properties that we have developed or that are under development are large scale and are developed in multiple phases over the course of one to several years. The selling prices of the residential units in larger scale property developments tend to change over time, which may impact our sales proceeds and, accordingly, our revenues for any given period.

Disputes with our joint venture or project development partners may materially and adversely affect our business

We carry out some of our business through joint ventures or in collaboration with other third parties. Such joint venture arrangements or collaboration involve a number of risks, including:

- disputes with our partners in connection with the performance of their obligations under the relevant project, joint venture or cooperative property development agreements;
- disputes as to the scope of each party's responsibilities under these arrangements;
- financial difficulties encountered by our partners affecting their ability to perform their obligations under the relevant project, joint venture or cooperative property development agreements with us; or
- conflicts between the policies or objectives adopted by our partners and those adopted by us.

Any of these and other factors may materially and adversely affect our business.

We may be required to forfeit land to the PRC government for failure to comply with the terms of the land grant contracts

Under the PRC laws and regulations, if a property developer fails to develop land according to the terms of the land grant contract, including those relating to payment of fees, designated use of land and schedule for commencing and completing the developments, the relevant government authorities may issue a warning to or impose a penalty on the developer or require the developer to forfeit the land. Specifically, under current PRC laws and regulations, if property developers fail to commence development 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 to the property developers and impose an idle land fee on the land of up to 20% of the land premium. If a property developer fails to commence development for more than two years from the commencement date stipulated in the land grant contract, the land may be subject to forfeiture to the PRC government. Moreover, even if the property developer commences the land development in accordance with the land grant contract, the relevant land will nonetheless be treated as idle land if (i) the developed GFA on the land is less than one-third of the total GFA of the project under the land grant contract or the total capital invested is less than one-fourth of the total estimated investment of the project under the land grant contract and (ii) the land development has been suspended for over one year without governmental approval. See “Regulation- Development of a Property Project.”

During the three years ended December 31, 2009 and up to March 31, 2010, we were not subject to any penalty for late payment of land premiums and were not required to forfeit any land nor have we received any warning from the relevant governmental authorities or paid any penalties as a result of failing to commence development within two years of the relevant land grant contract. While we have complied with all development plans and payment obligations, there have been circumstances where the development of a portion of land for which our Group was granted land use rights was delayed beyond the date stipulated in the relevant land grant contract. As confirmed by relevant government authorities, in each case such delays were caused by force majeure, acts of government or preliminary work that was required to be undertaken prior to the commencement of development. According to relevant PRC laws and regulations, any delay in the commencement of development that can be attributed to any of the above factors will not result in the forfeiture of idle land and land grant deposits, or the imposition of any other penalty. Accordingly, Commerce & Finance Law Offices, our PRC legal counsel, are of the opinion that as of March 31, 2010, no such penalty had been imposed on us in respect of the abovementioned delays. However, we cannot assure you that circumstances leading to forfeiture of land or delays in the completion of a property development may not arise in the future. If we are required to forfeit land, we will not be able to continue our property development on the forfeited land, recover the costs incurred for the initial acquisition of the forfeited land or recover development costs and other costs incurred up to the date of forfeiture.

We are required to deliver individual property ownership certificates in a timely manner and the failure to do so may result in claims against us

Property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within one to two years after delivery of the property or within a time frame set out in the relevant sale and purchase agreement. Property developers, including us, generally elect to specify the deadline for the delivery of the individual property ownership certificates in the sale and purchase agreements to allow sufficient time for the application and approval processes. Under current regulations, property developers are required to submit requisite governmental approvals in connection with their property developments, including a land use rights certificate, a certificate evidencing the construction has met the requirements of relevant planning permits, a certificate evidencing the construction has completed, a property survey report, to the local bureau of land resources and housing administration after the receipt of the completion and acceptance certificate for the relevant properties and to apply for the general property ownership certificate in respect of these properties. Property developers are then required to submit, within regulated periods after delivery of the properties, the relevant property sale and purchase agreements, identification documents of the purchasers, proof for payment of deed tax, and the general property ownership certificate, to the bureau for review prior to the issuance of the individual property ownership certificates in respect of the properties purchased by the respective purchasers. Delays by the various administrative authorities in reviewing the application and granting approval as

well as other factors may affect timely delivery of the general as well as individual property ownership certificates. Property developers, including us, may become liable for monetary penalties to purchasers for late delivery of the individual property ownership certificates due to delays in the administrative approval processes or for any other reason beyond our control. We cannot assure you that we will be able to timely deliver all property ownership certificates in the future or that we will not be subject to any liabilities as a result of any late deliveries of property ownership certificates.

The relevant PRC tax authorities may challenge the basis on which we have been paying our LAT obligations and our results of operations and cash flows may be materially and adversely affected

All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to the land appreciation tax (“LAT”) at progressive rates ranging from 30% to 60% of the “appreciated value of the property,” as such term is defined in the relevant tax laws. See “Regulation — Our Operations in the PRC — Land Appreciation Tax.” No LAT is payable for the sale of ordinary residential properties if the appreciation value does not exceed 20% of the “total deductible items,” as such term is defined in the relevant tax laws. Under relevant PRC regulations, property developers were also exempted from the payment of LAT on the first transfer of land and buildings made during the five years commencing on January 1, 1994, subject to certain conditions. The period of LAT exemption was subsequently extended to the end of 2000. In 2007, 2008 and 2009, we recorded a LAT expense in the amount of RMB2.6 million, RMB104.2 million, RMB263.2 million (US\$38.6 million), respectively, and we paid LAT in the amount of RMB9.8 million, RMB17.6 million and RMB29.1 million (US\$4.3 million), respectively.

On December 28, 2006, the State Administration of Taxation (the “SAT”) issued the LAT Notice, which became effective on February 1, 2007. The LAT Notice sets forth, among other things, methods of calculating LAT and a time frame for settlement of LAT. On May 12, 2009, the SAT issued the Provisions on Administration of the Settlement of Land Appreciation Tax (土地增值税清算管理規程), which became effective on June 1, 2009 and stipulates in detail the procedures for settlement of LAT and methods of calculating LAT. See “Regulation — Our Operations in the PRC — Land Appreciation Tax.” We believe we have accrued all LAT payable on our property sales and transfers in accordance with the progressive rates specified in relevant PRC tax laws, less amounts previously paid under the levy method applied by relevant PRC local tax authorities. However, provisioning for LAT requires our management to use a significant amount of judgment with respect to, among other things, the anticipated total proceeds to be derived from the sale of the entire phase of the project or the entire project, the total appreciation of land value and the various deductible items. As a result, the relevant PRC local tax authorities may not agree with our estimates or the basis on which we calculate our LAT liabilities. If the LAT provisions we have made are substantially lower than the actual LAT amounts assessed by the relevant PRC local tax authorities in the future, our results of operations and cash flows will be materially and adversely affected.

We are subject to multiple regulations of the PRC governmental authorities and any non-compliance or perceived non-compliance with these regulations may have a material and adverse effect on our business, financial condition and results of operations

Our business is regulated by various PRC governmental authorities and departments. If any PRC authority believes that we or any of our suppliers or contractors in the course of our operations are not in compliance with PRC regulations, it could delay or even shut down our construction or sales operations, refuse to grant or renew any necessary approvals or licenses, institute legal proceedings to seize our properties, enjoin future actions or impose civil and/or criminal penalties, pecuniary or otherwise, against us, our officers or our employees. Any such action by the PRC governmental authorities would have a material adverse effect on our business, causing delays to our development projects, or terminating them altogether. In recent years, the PRC Government has implemented many new laws and regulations or made amendments to existing regulations concerning property developers. We cannot guarantee that our development projects are fully compliant with the laws and regulations. If we are found to have breached, or are accused of having not complied with, or in the future do not comply with, any applicable PRC laws and regulations, we may be subject to the imposition of penalties or even suspension of business and confiscation of any acquired land. In such event, our business and reputation may be materially and adversely affected.

Our success depends on the continuing services of our senior management team and other key personnel

Our future success depends heavily upon the continuing services of our executive directors and members of our senior management team, in particular, our chairman, executive director and chief executive officer, Mr. Pan and our executive director, Ms. Zeng. If one or more of our senior executives or other personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. In addition, as competition in the PRC for senior management and key personnel with experience in property development is intense, and the pool of qualified candidates is very limited, we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. If we fail to attract and retain qualified personnel, our business and prospects may be adversely affected.

We face competition for qualified employees in the property industry which may make it difficult for us to retain and recruit enough employees for the expansion of our business

Our long-term success depends on our ability to attract and retain qualified employees. We require a large number of qualified employees for each stage of our property development process and for our property operation services, property agency services and hotel services businesses. We expect to recruit more qualified employees as we continue to strengthen our existing business or expand our business into new geographical regions and into other segments of the real estate industry. The growth of the property industry in China has created an increasing demand for qualified employees in each segment of the property industry. While we have implemented certain measures aimed to promote effective recruitment and retention of our employees, we cannot assure you that these measures will be effective. If we are unable to recruit or retain a sufficient number of qualified employees for the continuation and expansion of our business, our business and prospects may be adversely affected.

We may suffer losses arising from uninsured risks

In line with industry practice, we do not maintain insurance for destruction of or damage to our property developments (whether they are under development or have been completed and are pending delivery) other than with respect to those properties over which our lending banks have security interests, for which we are required to maintain insurance coverage under the relevant loan agreements. Similarly, we do not carry insurance covering construction-related personal injuries. In addition, we do not carry insurance for any liability arising from allegedly tortious acts committed on work sites. We cannot assure you that we would not be sued or held liable for damages due to such tortious acts. Moreover, there are certain losses for which insurance is not available on commercially practicable terms, such as losses suffered due to earthquake, typhoon, flooding, war and civil disorder. If we suffer from any losses, damages or liabilities in the course of our operations and property development, we may not have sufficient funds to cover any such losses, damages or liabilities or to replace any property development that has been destroyed. In addition, any payment we make to cover any losses, damages or liabilities may have a material adverse effect on our business, financial condition and results of operations.

The total GFA of some of our property developments exceeds the original authorized area and the excess GFA is subject to governmental approval and payment of additional land premium

When the PRC government grants the land use rights for a piece of land, it will specify in the land grant contract the designated use of the land and the total GFA that the developer may develop on this land. The actual GFA constructed, however, might have exceeded the total GFA authorized in the land 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. 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. We cannot assure you that the total constructed GFA of our existing projects under development or any future property developments will not exceed the relevant authorized GFA upon completion or that we will be able to pay the additional land premium and obtain the completion certificate on a timely basis.

The ancillary facilities in residential projects developed by us may not always be available to residents in the projects

Many of the residential projects developed by us have ancillary facilities such as schools that enhance the value of properties in such projects by providing convenience and a better living environment to residents. We do not, however, own or operate any of these ancillary facilities except for clubhouses and therefore cannot guarantee that these ancillary facilities will continue to operate and provide services to residents in the properties developed by us. In the event that any of these ancillary facilities cease to operate and we cannot arrange for replacement services, properties in the affected project will become less attractive to potential purchasers, which will adversely affect our business to the extent that we have properties unsold or held for investment purposes in such project. In addition, our reputation may also be adversely affected as a result of the unavailability of such ancillary facilities.

Our controlling shareholders may take actions that are not in, or may conflict with, our or our creditors', including the holders of the Notes, best interests.

As of December 31, 2009, our controlling shareholder, Fantasy Pearl International Limited (“Fantasy Pearl”) held 65.14% of our outstanding shares. Fantasy Pearl, and our ultimate controlling shareholders, Ms. Zeng Jie and Graceful Star Overseas Ltd (“Graceful Star”), have and will continue to have the ability to exercise a controlling influence over our business, and may cause us to take actions that are not in, or may conflict with, our or our creditors’, including the holders of the Notes, best interests, including matters relating to our management and policies and the election of our directors and senior management. Ms. Zeng Jie and Graceful Star will be able to influence our major policy decisions, including our overall strategic and investment decisions, by controlling the election of our directors and, in turn, indirectly controlling the selection of our senior management, determining the timing and amount of any dividend payments, approving our annual budgets, deciding on increases or decreases in our share capital, determining our issuance of new securities, approving mergers, acquisitions and disposals of our assets or businesses, and amending our articles of association. For more information, see “Management,” “Principal Shareholders,” and “Related Party Transactions.”

We may be involved in legal and other proceedings arising out of our operations from time to time and may incur substantial losses and face significant liabilities as a result

We may be involved in disputes with various parties involved in the development and sale of our properties, including business partners, contractors, suppliers, construction workers and purchasers. These disputes may lead to legal or other proceedings and may result in substantial costs, delays in our development schedule, and the diversion of resources and management’s attention, regardless of the outcome. Furthermore, if we fail to resolve these disputes in our favor, we may incur substantial losses and face significant liabilities. For example, in June 2007 we filed a lawsuit in the People’s Court of Futian District, Shenzhen in connection with the unlawful occupation of, and collection of fees from, the 177 car parking spaces in our Shenzhen Endless Blue (深圳碧雲天) Project by the property manager of such project. The court has ruled that we are entitled to 70% of the revenue generated by such car parking spaces and ordered the property manager to return such revenue to us. However, on the basis that (i) a single property development such as Shenzhen Endless Blue may only have one property manager at any one time, and (ii) the local government in Shenzhen has not issued rules and procedures for the registration of property rights in car parking spaces, the court declined to order the property manager to return management of the contested parking spaces to Shenzhen Xingyan Investment Development Co., Ltd. As a result, unless (i) an agreement for the distribution of revenue is reached between us and such property manager or (ii) the Shenzhen local government issues rules and procedures for the registration of property rights in car parking spaces, we have no option but to periodically sue Shengfu to recover our share of the revenue generated by such car parking spaces. See the section entitled “Business — Legal Proceedings.” We may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decisions that result in penalties and/or delay our property developments. In such cases, our results of operations and cash flow could be materially and adversely affected.

We are subject to potential environmental liability that could result in substantial costs

Property developers in the PRC are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations which apply to any given project development site vary greatly according to the location, the environmental condition and 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 may result in delays in development. 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.

The environmental investigations conducted relating to each of our property development projects to date have not revealed any material environmental liability. However, it is possible that these investigations 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, financial condition or results of operations. For additional information, see “Our Business — Environmental Matters.”

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

Under HKFRS, we are required to reassess the fair value of our completed investment properties at the date of every statement of financial position. Our valuations are generally based on a direct comparison approach, under which our investment properties are directly compared with other comparable properties of similar size, character and location, in order to provide a fair comparison of capital values, and an income approach by taking into account the net rental income of properties. 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. Our investment properties were revalued as of December 31, 2007, 2008 and 2009, respectively, on an open market and existing use basis which reflected market conditions on those dates. The valuations are based on certain assumptions which, by their nature, are subjective and uncertain and may differ materially from actual results. For example, with respect to properties under development and planned for future development, the valuations are based on assumptions that (1) the properties will be developed and completed in accordance with the development proposals, (2) regulatory and governmental approvals for the proposals have been obtained, (3) all premiums in connection with the properties have been paid and the properties are free of encumbrances and other restrictions and (4) we are in possession of the proper legal titles and are entitled to transfer the properties at no extra land premium. 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.

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

Under Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), all property development companies in the PRC must provide certain quality warranties for the properties they develop or sell. We are required to provide these warranties to our customers. We may sometimes receive quality warranties from our third-party contractors with respect to our development projects. If a significant number of claims are brought against us under our warranties and if we are unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, we could incur significant expenses to resolve such claims or face delays in correcting the related defects, which could in turn harm our reputation and have a material and adverse effect on our business, financial condition and results of operations.

We may be deemed a PRC resident enterprise under the EIT Law and be subject to the PRC taxation on our worldwide income

The Enterprise Income Tax Law (“EIT Law”) and the implementation regulations to the EIT Law issued by the PRC State Council became effective on January 1, 2008. Under the EIT Law, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate on their global income. It is, however, currently unclear under what situations an enterprise’s “de facto management body” would be considered to be located in China. 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 which defines the term “management body” in respect of enterprises that are established offshore by PRC enterprises. However, no definition of “management body” is provided for enterprises established offshore by private individuals or foreign enterprises like us. As such, Commerce & Finance Law Offices, our PRC legal counsel, has advised us that there is uncertainty whether we will be deemed to be a PRC “resident enterprise” for the purpose of the EIT Law. Substantially all of our management is currently based in China, and therefore, we may be treated as a PRC “resident enterprise” for enterprise income tax purposes. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the EIT Law or the implementation regulations.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have; any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and such dividends may be subject to PRC taxation

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur, including the Notes. The ability of our direct and indirect subsidiaries to pay dividends to their shareholders (including us, the Subsidiary Guarantors and the JV Subsidiary Guarantors, if any) is subject to applicable laws and restrictions contained in the debt instruments and obligations of such subsidiaries. As of the date of this offering memorandum, all but US\$100 million principal amount of our total indebtedness is in the form of PRC bank loans to our PRC subsidiaries. Furthermore, under applicable PRC laws, rules and regulations, payment of dividends by our PRC subsidiaries is permitted only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Under PRC laws, rules and regulations, all of our PRC subsidiaries are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their respective statutory capital reserve funds until the accumulative amount of such reserves reaches 50% of their respective registered capital. As a result, all of our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. As of December 31, 2009, our restricted reserves of the Group totaled RMB72.6 million (US\$10.6 million). Our restricted reserves are not distributable as cash dividends. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, pay dividends or otherwise fund and conduct our business.

Under the EIT Law and implementation regulations issued by the State Council, a PRC income tax rate of 10% is applicable to dividends paid by Chinese enterprises to “non-resident enterprises,” subject to the application of any relevant income tax treaty that the PRC has entered into. As advised by Commerce & Finance Law Offices, our PRC legal counsel, there is uncertainty whether we or any of our non-PRC subsidiaries will be considered “non-resident enterprises” for the purpose of the EIT Law. If we or our non-PRC subsidiaries are considered “non-resident enterprises,” any dividend that we or any such subsidiary receive from our PRC subsidiaries may be subject to PRC taxation at the rate of 10% (or a lower treaty rate, if any), which would further impact the ability of our PRC subsidiaries to pay dividends to their shareholders (including us, the Subsidiary Guarantors and the JV Subsidiary Guarantors, if any).

Risks Relating to Our Industry

PRC government policies, regulations and measures intended to curtail the overheating of the property market may adversely affect our business

Along with the economic growth in China, investments in the property sectors have increased significantly in the past few years. In response to concerns over the scale of the increase in property investments, the PRC government has introduced policies to curtail property development. On March 26, 2005, the General Office of the State Council promulgated the Circular on Duly Stabilizing the Prices of Residential Properties (關於切實穩定住房價格的通知) requiring measures to be taken to restrain the prices of residential properties from increasing too fast. On May 9, 2005, the General Office of the State Council approved the Opinion on Improving the Works on Stabilizing the Prices of Residential Properties (關於做好穩定住房價格工作的意見) issued by seven departments of the State Council, setting out guidelines for the relevant PRC authorities to control the rapid growth in the residential property market. On May 24, 2006, the General Office of the State Council approved the Opinions on Adjusting Housing Supply Structure and Stabilization of Housing Prices (關於調整住房供應結構穩定住房價格的意見) issued by nine departments of the State Council. On September 27, 2007, PBOC and CBRC issued the Notice on Strengthening the Management of Commercial Real Estate Credit and Loans (關於加強商業性房地產信貸管理的通知). These measures, among others, imposed various restrictions on lending funds to property developers and extending mortgage loans to property purchasers. These measures also provide that the total area of units with a GFA of less than 90 square meters must equal at least 70% of a residential housing project's total GFA. On April 17, 2010, the State Council issued the Notice on Firmly Preventing Property Price from Increasing too rapidly in Certain Cities (國務院關於堅決遏制部分城市房價過快上漲的通知) (the "April 17 Notice").

Pursuant to which the State Council raised 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 square meters. The notice also stipulates that interest rates for mortgage loans for second homes cannot be lower than 110% of PBOC benchmark lending rate. See "Regulation — Mortgaging of Property." We cannot assure you that the governmental authorities will not require us to modify our development plans or that these new measures will not adversely impact our business due to the uncertainties involved in implementing these new measures.

On July 11, 2006, the MOC, MOFCOM, the NDRC, the PBOC, SAIC and SAFE jointly issued the 171 Opinion which aims to regulate access by foreign investors to the domestic property market and to strengthen supervision over property purchases by foreign-invested enterprises. The 171 Opinion provides for, among other things, stricter standards for a foreign institution or an individual when purchasing real property in the PRC which is not intended for personal use. On May 23, 2007, MOFCOM and SAFE promulgated the Circular on Further Strengthening and Regulating the Approval and Supervision of Real Estate Industry with Direct Foreign Investment (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 the "Notice 50," which imposed additional restrictions and requirements on foreign investment in the real estate industry. See "Regulation — Legal Supervision Relating to Property Sector in the PRC — Foreign-invested Property Enterprises."

In addition, though the PRC tax authorities and other governmental agencies have not officially promulgated any rules or regulations to levy property tax on residential properties, it is possible that such or other tax policies be adopted in the future to further discourage speculative property transaction in China. In particular, the State Council proposed in the April 17 Notice that the Ministry of Finance and tax authorities make new tax policies in order to induce rational housing consumption and adjust the profits gained from property investment. Such new tax policies, once enacted, may further curtail the market demand for residential properties and as a result, our business and future prospects may be materially and adversely affected.

Although the various control measures are intended to promote more balanced property development in the long-term, we cannot assure you that these measures will not adversely affect the development and sales of our properties. In addition, although the PRC government has, due to the recent global financial and economic crisis, introduced an offsetting stimulus package, 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, among other benefits, there is no assurance that such policy would remain and that the various control measures would not be re-implemented once the economy stabilizes, which may adversely affect our business, results of operations and financial condition.

The PRC government has imposed restrictions on the ability of PRC property developers to receive offshore funds which may delay or prevent us from deploying the funds raised in this offering to our business in China and therefore materially and adversely affect our liquidity and our ability to fund and expand our business

On July 10, 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), or the “SAFE notice”. 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 authorization 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 restricts the ability of foreign-invested real estate companies to raise funds offshore for the purpose of injecting such funds into the companies by way of shareholder loans. Nonetheless the SAFE notice 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 registered capital increase or new company establishment has been duly approved by local branches of MOFCOM and registered with MOFCOM or duly approved by MOFCOM.

Like other foreign-invested PRC property developers we are subject to the notice. We intend to repatriate any offshore funds that we may raise in the future by increasing the registered capital of our existing subsidiaries or by establishing new subsidiaries. Following the implementation of the SAFE notice, we have successfully remitted foreign funds from our offshore holding entities into Fantasia Group (China) Co., Ltd., Fantasia Chengdu Ecological Tourism Development Co., Ltd. and Shenzhen Zhifu Real Estate Investment Development Co., Ltd. through increasing their respective registered capitals and registering each such increase with MOFCOM. 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 the 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 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

The property development industry and the ownership of private property in the PRC are 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, all of which are beyond our control, may affect market development. 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 private property may discourage the acquisition of 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 inhibit demand for property developments, property operation services and property agency services.

Increase in resettlement costs and the inability to reach resettlement agreements associated with certain property developments may materially and adversely affect our business, 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 with the City Housing Resettlement Administration Regulations (城市房屋拆遷管理條例) 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 change. 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, financial condition and results of operations may be materially and adversely affected.

Risks Relating to the PRC

Changes in PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects

Substantially all of our business and operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to economic, political and social developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Certain measures taken by the PRC government to guide the allocation of resources may benefit the overall economy of China but may, however, also have a negative effect on us. For example, our business, financial condition, results of

operations and prospects may be adversely affected by government control over capital investments, changes in tax regulations that are applicable to us, change in interest rates and statutory reserve rates for banks or government control in bank lending activities.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us

Our business and operations are primarily conducted in China and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protection to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention.

Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on your investment

The exchange rates between the Renminbi and the Hong Kong dollar, the U.S. dollar and other foreign currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall by as much as 0.5% each day. As of December 31, 2009, this change in policy had resulted in the value of the Renminbi appreciating against U.S. dollar by approximately 21.3%.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or other foreign currency. As we rely on dividends paid to us by our operating subsidiaries, any significant revaluation of the Renminbi may have a material adverse effect on the value of dividends payable in foreign currency terms. To the extent that we need to convert the proceeds from this offering and future financing into the Renminbi for our operations, appreciation of the Renminbi against the relevant foreign currencies would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our shares or for other business purposes, appreciation of the Hong Kong dollar against the Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

Governmental control over currency conversion may affect the value of your investment and limit our ability to utilize our cash effectively

Substantially all of our revenue 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 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 dividends in foreign currencies to our shareholders. 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.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options and restricted share units may subject such employees or us to fines and legal or administrative sanctions

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange (個人外匯管理辦法實施細則), or the Individual Foreign Exchange Rules, issued on January 5, 2007 by SAFE and relevant guidance issued by SAFE in March 2007, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to obtain the approval of SAFE and complete certain other procedures related to the share options or other share incentive scheme. However, no requirements or administrative rules have been issued by SAFE in connection with the registration process for employees of overseas non-listed companies that participate in employee stock holding plans or stock option plans. In addition, foreign exchange income from the sale of shares or dividends distributed by the overseas listed company must be remitted into a foreign currency account of such PRC citizen or exchanged into Renminbi. Our PRC citizen employees who may be granted share options or restricted share units in the future, or our future PRC option holders, will be subject to the Individual Foreign Exchange Rules. If we or our future PRC option holders fail to comply with these regulations, we or our future PRC option holders may be subject to fines and legal or administrative sanctions.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on foreign laws against us, our directors and our senior management

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, the substantial majority of our directors and senior management reside within China. As a result, it may not be possible for investors to effect service of process outside China upon the substantial majority of our directors and senior management. Moreover, China does not have treaties with the United States, the United Kingdom or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. As a result, recognition and enforcement in China of judgments of a court in any of these jurisdictions may be difficult.

The national and regional economies may be adversely affected by a recurrence of SARS or an outbreak of other epidemics, natural disasters or severe weather conditions, thereby affecting our business prospects

In May 2008, a major earthquake and aftershocks struck Sichuan province in southwestern China. The epicenter was approximately 80 kilometers from Chengdu, where we have 11 development projects comprised of five developed projects and six projects that are currently under development or held for future development. While none of these projects suffered any material physical damages from the earthquake, some completed properties in the projects suffered minor damages such as cracks on the walls. While we do not have any legal liability to our customers for such damages as they were caused by the earthquake, which constitutes force majeure, we decided to repair such cracks for our customers at our own costs in order to increase our customer satisfaction and enhance our reputation as a responsible property developer. Construction of our projects in Chengdu was also suspended for about two months in compliance with orders issued by the local government that were applicable to all construction projects in Chengdu after the earthquake. Sale of our properties in Chengdu also dropped significantly during the few months after the earthquake. Our business could be materially adversely affected if any other natural

disasters occur in the regions that we have business. In addition, certain areas of China are susceptible to epidemics, such as Severe Acute Respiratory Syndrome (“SARS”), the H1N1 influenza, also known as swine flu, or avian influenza, natural disasters or severe weather conditions. A recurrence of SARS, an outbreak of H1N1 or avian influenza or any other epidemics, natural disasters or severe weather conditions in China could adversely affect the regional and national economies of Asia, including China, and could also result in material disruptions to our property developments and property related services and reduce the value of our investment properties, which in turn would adversely affect our financial condition and results of operations.

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

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. Our primary assets are ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors and certain Non-Guarantor Subsidiaries. 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 March 31, 2010, our PRC subsidiaries had unsubordinated indebtedness in the amount of RMB3,994 million (US\$585.1 million), capital commitments in the amount of RMB1,051 million (US\$154.0 million) and contingent liabilities arising from guarantees in the amount of RMB1,871.2 million (US\$274.1 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% 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.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our total borrowings, including both current and non-current borrowings as of December 31, 2007, 2008 and 2009 were RMB367.9 million, RMB726.8 million and RMB3,440.1 million (US\$504.0 million), respectively.

Our substantial indebtedness could have important consequences to you. 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 conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our 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, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

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. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, there is no assurance that we will be able to generate sufficient cash flow for these purposes. 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 our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, the terms of the Indenture prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratio requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our financing arrangements also impose operating and financial restrictions on our business. See the section entitled “Description of Material Indebtedness and Other Obligations.” Such restrictions in the Indenture and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business or the general economy. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

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 HKFRS 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, starting from January 1, 2008, dividends for the year 2008 and onward paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. 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%. 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.

Furthermore, although we currently do not have any offshore shareholder loan to our PRC subsidiaries, we may resort to such offshore lending in the future, rather than equity contribution, to our PRC subsidiaries to finance their operations. In such events, the market interest rates that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholder loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on our behalf on the interest paid under any shareholder loan. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries (as foreign-invested enterprises in China) must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances 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.

We may be subject to risks presented by fluctuations in exchange rates between Renminbi and other currencies, particularly the U.S. dollar

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than

being effectively linked to the U.S. dollar. Further, from May 18, 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. These changes in currency policy resulted in Renminbi appreciating against the U.S. dollar and the H.K. dollar by approximately 18.8% from July 21, 2005 to December 7, 2009. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between 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 arrangements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging arrangements may require us to pledge or transfer cash and other collateral to secure our obligations under the arrangements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Initial Purchasers and their affiliates may enter into such hedging arrangements permitted under the Indenture, and these arrangements may be secured by pledges of our cash and other assets as permitted under the Indenture. If we were unable to provide such collateral, it could constitute a default under such hedging arrangements.

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 the section entitled “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, refinancings, 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 we and some of the Subsidiary Guarantors are 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 Subsidiary Guarantor or 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

other Subsidiary Guarantors and JV Subsidiary Guarantors (if any) are incorporated or may be incorporated in the BVI or Hong Kong and the insolvency laws of the BVI 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.

We may be unable to obtain and remit foreign exchange

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us and, if applicable, to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

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.

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 of Restricted Subsidiaries;
- 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.

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 U.S. Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the U.S. Securities Act or in transactions not subject to or exempt from registration under the U.S. 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 assigned a rating of B+ by Standard and Poor's Ratings Services and B2 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. In addition, we have been assigned a long-term corporate credit rating of BB- with a stable outlook by Standard and Poor's Rating Services and a corporate family rating of B1 with a stable outlook by Moody's Investors Service. 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 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 any transaction between a listed company or any of its subsidiaries, on the one hand, and a "connected person" of such listed company, on the other hand,

is a “connected transaction” that, if the value of such transaction exceeds the applicable de minimis thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of “connected person” to a listed company includes, among others, any 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of “connected person” also captures “associates,” which include, among others, (a) any subsidiary of such “connected person,” (b) any holding company of such “connected person” and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

The “Limitation on Transactions with Shareholders and Affiliates” covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (x) any holder (or any Affiliate of such holder) of 10% or more of the shares of the Company or (y) any Affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they are subject to the independent shareholders’ requirement under the Listing Rules. 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 officers’ 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 revenues, 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 HKFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKFRS and U.S. GAAP or between HKFRS and other GAAPs. The section entitled “Summary of Certain Differences between HKFRS and U.S. GAAP” in this offering memorandum contains a summary of some of the differences between them, but we have not quantified such differences. Accordingly, no assurance is provided that such summary of differences between HKFRS and U.S. GAAP is complete. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and U.S. GAAP or between HKFRS and other GAAPs and how those differences might affect 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 companies 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 than those imposed by securities exchanges in other countries or regions 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.

Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral

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 the section entitled “Description of the Notes — The Subsidiary Guarantees” for a list of the Non-Guarantor Subsidiaries. Moreover, the charge over the shares of the offshore subsidiaries of the Company (the “Collateral”) will not include the capital stock of our existing or future Non-Guarantor Subsidiaries, including our PRC 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 the section entitled “— 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 (subject to the satisfaction of certain conditions including a cap on the non-guaranteed portion of the assets of JV Subsidiary Guarantors). 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 BVI, 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.

The pledge of certain Collateral may in some circumstances be voidable

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, the Cayman Islands and the BVI at any time within six months of the perfection of the pledge or, under some circumstances, within a longer period. Pledges of capital stock of future Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the analysis set forth under the section entitled “— 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” above.

If the pledges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us and the Subsidiary Guarantor Pledgors.

The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other pari passu secured indebtedness

The Collateral will consist only of the capital stock of the certain of initial Subsidiary Guarantors. The security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in properties and assets that will not be pledged as additional Collateral.

The ability of the Trustee, on behalf of the holders of the Notes, to foreclose on the Collateral upon the occurrence of an Event of Default or otherwise will be subject in certain instances to perfection and priority status. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Trustee or holders of the Notes will be able to enforce the security interest.

The value of the Collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the Collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, we cannot assure you that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due and payable on the Notes. By its nature, the Collateral, which consists solely of the capital stock of any existing or future Subsidiary Guarantor, is likely to be illiquid and is unlikely to have a readily ascertainable market value. Likewise, we cannot assure you that the Collateral will be saleable or, if saleable, that there will not be substantial delays in its liquidation.

The Collateral will be shared on a pari passu basis by the holders of the Notes and may be shared on a pari passu basis with holders of other indebtedness ranking pari passu with the Notes that we may issue in the future. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of such secured indebtedness. The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the obligations of the Company and each of the Subsidiary Guarantor Pledgors under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes or other pari passu indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture.

The pledge of certain Collateral may be released under certain circumstances

In the event the conditions applicable to the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee are satisfied, we are permitted to release the pledge of the shares granted by such Subsidiary Guarantor, as well as the pledge of the shares granted by the subsidiaries of such Subsidiary Guarantor. We are only required to deliver a replacement share pledge for the shares that we continue to hold in such JV Subsidiary Guarantor (but not the subsidiaries of such JV Subsidiary Guarantor) following the sale of the equity interests in such Subsidiary Guarantor. As a result, in the event we sell minority equity interests in our Subsidiary Guarantors or otherwise create JV Subsidiary Guarantors in accordance with the terms of the Indenture, the Collateral will be reduced in value and scope, and holders of the Notes would be subject to increased risks.

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\$115.8 million. We intend to use US\$92.6 million of the net proceeds to fund existing and new property projects (including construction costs and land premium) and US\$23.2 million for general corporate purposes.

We may adjust our acquisition and development plans in response to changing market conditions and, thus, 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. 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 conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, 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. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. On May 18, 2007, PBOC enlarged, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar 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 PBOC. From July 21, 2005 to December 31, 2009, the value of the Renminbi appreciated by approximately 18.8% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. PBOC authorized the China Foreign Exchange Trading Centre, 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.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer 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)				
2005	8.0702	8.1826	8.2765	8.0702
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
July	6.8319	6.8317	6.8342	6.8300
August	6.8299	6.8323	6.8358	6.8299
September	6.8262	6.8277	6.8303	6.8247
October	6.8264	6.8267	6.8292	6.8248
November	6.8265	6.8271	6.8300	6.8255
December	6.8259	6.8275	6.8299	6.8244
2010				
January	6.8268	6.8269	6.8295	6.8258
February	6.8258	6.8285	6.8330	6.8258
March	6.8258	6.8262	6.8270	6.8254
April (through April 23, 2010)	6.8270	6.8256	6.8275	6.8229

(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 April 23, 2010, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US\$1.00 = RMB 6.8270 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 Special Administrative Region of the People's Republic of China (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. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the link within the current rate range 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)			
2005	7.7533	7.7755	7.7999	7.7514
2006	7.7771	7.7685	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7449	7.7814	7.8159	7.7497
2009	7.7536	7.7514	7.7618	7.7495
July	7.7500	7.7500	7.7505	7.7495
August	7.7505	7.7506	7.7516	7.7500
September	7.7500	7.7503	7.7514	7.7498
October	7.7497	7.7497	7.7502	7.7495
November	7.7500	7.7497	7.7501	7.7495
December	7.7536	7.7526	7.7572	7.7495
2010				
January	7.7665	7.7624	7.7752	7.7539
February	7.7619	7.7670	7.7716	7.7619
March	7.7647	7.7612	7.7648	7.7574
April (through April 23, 2010)	7.7628	7.7622	7.7672	7.7565

(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 April 23, 2010, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was US\$1.00 = HK\$7.7628 as certified for customs purposes by the Federal Reserve Bank of New York.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and cash equivalents, short-term debt and capitalization as of December 31, 2009 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes in this offering after deducting the underwriting discounts and commissions and other estimated expenses of this offering payable by us. The following table should be read in conjunction with the selected consolidated financial information and the audited consolidated financial statements and related notes included in this offering memorandum.

	Actual		As of December 31, 2009	
	RMB	US\$	As adjusted	
			RMB	US\$
				(in thousands)
Cash and cash equivalents⁽¹⁾	3,696,488	541,539	4,486,884	657,332
Short-term borrowings				
Borrowings – due within one year	1,266,320	185,517	1,266,320	185,517
Amount due to related parties	1,519	223	1,519	223
Long-term borrowings				
Borrowings – due after				
one year	2,173,750	318,456	2,173,750	318,456
Amount due to related parties	99,340	14,553	99,340	14,553
Notes to be issued	–	–	790,396	115,793
Total long-term borrowings	2,273,090	333,009	3,063,486	448,802
Total equity	4,081,361	597,923	4,081,361	597,923
Total capitalization⁽²⁾	6,354,451	930,932	7,144,847	1,046,725

Notes:

⁽¹⁾ Cash and cash equivalents exclude restricted bank deposits of RMB189.7 million.

⁽²⁾ Total capitalization includes total long-term borrowings plus total equity.

As of May 2, 2010, our total outstanding borrowings were approximately RMB4,173.3 million (US\$611.4 million) and as of March 31, 2010, we had bank balances and cash in the amount of approximately RMB2,793.0 million (US\$409.2 million). The increase in borrowings and decrease in bank balances and cash since December 31, 2009 were due primarily to investments in property developments by us since December 31, 2009. For details of such investments, please see “Business.”

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization since December 31, 2009.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected consolidated statement of comprehensive income data for the years ended December 31, in 2007, 2008 and 2009 and the selected consolidated balance sheet data as of December 31, 2007, 2008 and 2009 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by Deloitte, independent certified public accountants, and included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions. The selected financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Selected Consolidated Statement of Comprehensive Income and Other Financial Data

	For the Year Ended December 31,			
	2007 (RMB)	2008 (RMB)	2009 (RMB)	2009 (US\$)
	(in thousands)			
Revenue	772,057	1,174,211	2,458,673	360,197
Costs of sales	(549,220)	(704,734)	(1,431,812)	(209,762)
Gross profit	222,837	469,477	1,026,861	150,435
Other income, gains and losses	2,726	59,034	26,566	3,892
Gain on fair value changes of investment properties	86,875	13,807	34,476	5,051
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	2,170	302	–	–
Selling and distribution expenses	(39,616)	(49,837)	(80,480)	(11,790)
Administrative expenses	(94,458)	(162,677)	(177,229)	(25,964)
Finance costs	(12,167)	(69,941)	(51,800)	(7,589)
Impairment loss recognized in respect of goodwill	–	(2,305)	–	–
Share of results of associates	(1,548)	(3,789)	(1,899)	(278)
Profit before taxation	166,819	254,071	776,495	113,757
Income tax expenses	(82,552)	(156,550)	(407,050)	(59,633)
Profit and total comprehensive income for the year	<u>84,267</u>	<u>97,521</u>	<u>369,445</u>	<u>54,124</u>
Profit and total comprehensive income for the year attributable to:				
Owners of the Company	68,797	84,259	373,469	54,714
Minority interests	15,470	13,262	(4,024)	(590)
	<u>84,267</u>	<u>97,521</u>	<u>369,445</u>	<u>54,124</u>
Earnings per share – Basic	0.62	0.02	0.10	0.02
Other Financial Data				
EBITDA ⁽¹⁾	96,600	313,346	788,536	115,521
EBITDA margin ⁽²⁾	13%	27%	32%	32%

(1) EBITDA for any period consists of profit from operating activities before fair value gains on the investment properties and impairment loss recognized in respect of goodwill plus depreciation and amortization expenses. EBITDA is not a standard

measure under HKFRS. 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. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. 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 under HKFRS 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.

Selected Consolidated Statement of Financial Position

	As of December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Non-current Assets				
Property, plant and equipment	36,181	50,504	163,530	23,957
Investment properties	459,039	476,079	581,368	85,171
Interests in associates	6,650	11,248	12,941	1,896
Advance to an associate	65,377	58,240	72,396	10,606
Prepaid lease payments	9,052	1,561	164,457	24,093
Premium on prepaid lease payments	—	—	45,794	6,709
Prepayment	—	—	70,586	10,341
Deposits paid for acquisition of subsidiaries	—	—	423,000	61,970
Deposits paid for acquisition of a property project	—	—	352,056	51,576
Deferred tax assets	14,560	41,531	88,818	13,012
	<u>590,859</u>	<u>639,163</u>	<u>1,974,946</u>	<u>289,331</u>
Current Assets				
Properties for sales	2,027,853	3,769,841	4,576,936	670,525
Prepaid lease payments	256	112	4,704	689
Premium on prepaid lease payments	—	—	1,428	209
Trade and other receivables	213,575	145,739	987,961	144,737
Amount due from a shareholder	8	21	—	—
Amounts due from customers for contract works	6,141	1,349	3,808	558
Amounts due from related parties	10,340	26,856	—	—
Held-for-trading investments	—	3,000	—	—
Tax recoverable	21,331	30,346	17,503	2,564
Restricted bank deposits	18,032	37,849	189,712	27,793
Bank balances and cash	1,320,657	303,046	3,696,488	541,539
	<u>3,618,193</u>	<u>4,318,159</u>	<u>9,478,540</u>	<u>1,388,614</u>

	As of December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(US\$)
	(in thousands)			
Current Liabilities				
Trade and other payables	337,257	566,116	873,797	128,012
Deposits received for sale of properties	1,126,332	1,092,459	2,380,242	348,707
Amounts due to directors	27,456	54,012	–	–
Amounts due to related parties	2,892	99,340	1,519	223
Loans from shareholders	–	683,460	–	–
Tax payable	158,441	229,787	544,877	79,825
Borrowings – due with one year	317,943	373,050	1,266,320	185,517
	<u>1,970,321</u>	<u>3,098,224</u>	<u>5,066,755</u>	<u>742,284</u>
Net Current Assets	<u>1,647,872</u>	<u>1,219,935</u>	<u>4,411,785</u>	<u>646,330</u>
Total Assets less Current Liabilities	<u>2,238,731</u>	<u>1,859,098</u>	<u>6,386,731</u>	<u>935,661</u>
Non-current Liabilities				
Deferred tax liabilities	56,538	58,991	32,280	4,729
Amounts due to related parties	–	–	99,340	14,553
Loans from shareholders	730,460	–	–	–
Borrowings – due after one year	49,930	353,750	2,173,750	318,456
	<u>836,928</u>	<u>412,741</u>	<u>2,305,370</u>	<u>337,738</u>
	<u>1,401,803</u>	<u>1,446,357</u>	<u>4,081,361</u>	<u>597,923</u>
Capital and Reserves				
Share capital	9	9	429,389	62,906
Reserves	<u>1,058,985</u>	<u>1,145,955</u>	<u>3,340,870</u>	<u>489,440</u>
Equity attributable to owners of the Company	<u>1,058,994</u>	<u>1,145,964</u>	<u>3,770,259</u>	<u>552,346</u>
Minority interests	<u>342,809</u>	<u>300,393</u>	<u>311,102</u>	<u>45,577</u>
	<u>1,401,803</u>	<u>1,446,357</u>	<u>4,081,361</u>	<u>597,923</u>

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

The following discussion should be read in conjunction with the section entitled "Selected Consolidated Financial and Other Data" and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated.

Our consolidated financial statements were prepared in accordance with HKFRS, which differ in certain material respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions. See the section entitled "Summary of Certain Differences Between HKFRS and U.S. GAAP" for a brief summary as specified therein. In this section of the offering memorandum, references to "2007", "2008" and "2009" refer to our financial years ended December 31, 2007, 2008 and 2009, respectively.

Overview

We are a leading property developer and property related service provider in China. Our target customers are affluent middle- to upper-class individuals and families and small- to medium-sized enterprises. Our regions of focus are currently the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region.

As of March 31, 2010, we had a total of 31 projects at various stages of development (i.e. completed projects, projects under development and projects held for future development), including 12 projects located in the Chengdu-Chongqing Economic Zone (including Dali Project), 14 projects located in the Pearl River Delta region, three projects located in the Yangtze River Delta region and two projects located in the Beijing-Tianjin metropolitan region. In addition, as of March 31, 2010, we had entered into preliminary framework agreements for four projects.

As of March 31, 2010, we had a total land bank of approximately 10,775,077 square meters, which consists of:

- an aggregate planned GFA of approximately 5,749,960 square meters of properties for which we had obtained land use rights (consisting of an aggregate planned GFA of approximately 1,373,146 square meters of properties under development and an aggregate planned GFA of approximately 4,376,814 square meters of properties held for future development for which we have obtained land use rights); and
- an aggregate planned GFA of approximately 5,025,117 square meters of properties for which we had entered into preliminary framework agreements but had not obtained the land use rights or property rights. The preliminary framework agreements are legally binding but, before we are able to obtain the relevant land use right certificates, we are still required by the relevant PRC laws and regulations: (i) in respect of our Pixian and Yunnan Projects, to successfully complete the public tender, auction or listing-for-sale process, enter into a land grant contract and pay relevant land grant premium; (ii) in respect of our Beijing Tongzhou Project, to enter into and perform our obligations under a formal share transfer agreement and duly complete registration procedures for such transfer of equity ownership with the relevant government authorities; and (iii) in respect of our Suzhou Taihu Hotel Project, to invest at least 25% of the total capital required for the project or fulfill such other conditions as may be determined by the relevant government authorities of Suzhou and, where necessary, complete the requisite listing-for-sale and public notice procedures on the basis that project is currently a state-owned asset.

In April 2010, we entered into a framework agreement to purchase 100% equity interests in Shenzhen Gaohua Investment Limited, which holds certain parcels of land in Guilin City. Completion of such acquisition is conditional upon fulfillment of a number of conditions, including, among others, completion of necessary procedures for Shenzhen Gaohua Investment Limited to have legal ownership in

each of the project companies holding the relevant parcels of land in Guilin City and the underlying land use rights and obtaining corporate and other approval for such acquisition.

Of our total land bank as of March 31, 2010, approximately 8,469,267 square meters, or 78.6%, were located in the Chengdu-Chongqing Economic Zone (including Yunnan Project and Dali Project); approximately 1,097,717 square meters, or 10.2%, were located in the Pearl River Delta region; approximately 853,413 square meters, or 7.9%, were located in the Yangtze River Delta region; and approximately 354,680 square meters, or 3.3%, were located in the Beijing-Tianjin metropolitan region. We develop most of our properties, including properties that are currently under development, for sale but will hold certain of these developed properties for investment.

In addition to property development, we provide property operation services and property agency services to properties that are developed by us as well as those developed by others. We also hold certain properties as investments to provide us with recurring income. We have also, since 2008, begun providing hotel services and plan to increase such services in the future by operating the boutique hotels within several of our projects that are currently under development.

We finance our land acquisitions from internal funds, while our property development, including construction and other costs, is typically financed by internal funds and project loans from PRC banks. Our financing methods vary from project to project and are subject to limitations imposed by the PRC laws and regulations and monetary policies. The following summarize our main financing methods for our projects:

- **Internal funds.** Our internal funds primarily comprise shareholder contributions such as the HK\$2,500.0 million (US\$322.4 million) raised in our IPO in November 2009 and the amount raised in connection with the pre-IPO investment. As of March 31, 2010, approximately 44.8% and 68.5% of the proceeds from our IPO and the pre-IPO investment, respectively, had been applied to increase our land banks in China. Our internal funds also include proceeds from the pre-sale of properties, which are proceeds we receive when we enter into contracts to sell properties prior to their completion. We typically receive an initial payment of at least 30% of the purchase price at the execution of the presale contracts and the balance typically within 30 days of the execution of pre-sale contracts, by which time the customer is required to have obtained a bank mortgage. Proceeds from the pre-sale are typically used to repay borrowings as well as to fund the development of the project from that stage.
- **Borrowings.** As of December 31, 2009, we had total borrowings of RMB3,440.1 million (US\$504.0 million), of which RMB3,044.1 million (US\$445.9 million) was secured. We usually obtain project-specific borrowings that are secured by our properties under development and our land use rights, and usually repay the borrowings using a portion of our pre-sale proceeds from the specific project.

In the future, we expect to fund our projects by using a combination of sources, including proceeds of this offering, internally generated cash flow, borrowings, and funds raised from the capital markets from time to time.

Key Factors Affecting Our Results of Operations

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

Economic Conditions and Regulatory Environment in the PRC

Our results of operations are subject to political, economic, fiscal, legal and social developments in the PRC in general and in cities and regions in which we operate, such as in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region, as well as economic, fiscal, legal and social developments specifically affecting the real estate sector in the PRC and in cities and regions in which we operate, including:

- continued growth in the economy, population and rate of urbanization in the PRC and in the cities and regions in which we operate as such factors drive the demand for purchase or rental of real estate properties;
- the regulatory and fiscal environment of the PRC, specifically, the regulatory and fiscal environment affecting the property development industry, including tax policies, land grant and land use rights policies, pre-sale policies, policies on bank financing and interest rates and the availability of mortgage financing and other macro-economic policies; and
- the performance of the PRC's property market, in particular, the supply and demand for real estate properties and pricing trends in the medium to high-end property sector in the cities and regions in which we operate.

China's economy has experienced a slowdown as a result of the recent global economic and financial crisis. Recently there have been signs showing that China's economy has rebounded from its worst growth in a decade since the second quarter of 2009 and in particular, we have seen signs of recovery in China's property market since the second quarter of 2009. In addition, global economic conditions have also improved as governments around the world have taken remedial actions to address the economic slowdown and financial crisis. However, there is no assurance that such improved conditions can be sustained. It is also difficult to determine the continued impact of the global economic slowdown and financial crisis on the property industry in China due to its unprecedented nature. If the global economic slowdown and financial market crisis continue or become more severe than currently estimated, our business prospects, revenues, cash flows and financial condition could be materially and adversely affected.

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

Changes in the economic conditions and the regulatory environment in the PRC in general or in cities and regions in which we operate may affect the selling price of our properties as well as the time it will take us to pre-sell or sell the properties we have developed. Lower selling prices, without a corresponding decrease in costs, will adversely affect our gross profit and reduce cash flow generated from the sale of our properties, which may increase our reliance on external financing and negatively impact our ability to finance the continuing growth of our business. A prolonged selling period will increase our selling and distribution costs as well as reduce the cash flow generated from the sale of our properties for a particular period. On the other hand, higher selling price and a shorter selling period may increase our gross profit, reduce our selling and distribution costs and increase our cash flow for a particular period to enable us to fund the continuing growth of our business.

Costs of Labor, Construction Materials and Building Equipment

Our results of operations are affected by the costs of labor, construction materials such as steel and cement, and building equipment. As a result of the economic growth and the boom in the property development industry in the PRC, wages for construction workers and the prices of construction materials and building equipment have experienced substantial increase in recent years. Further, the PRC Labor Contract Law (中華人民共和國勞動合同法) that came into effect on January 1, 2008, enhanced the

protection for employees and increased employers' liability in many circumstances which may further increase our labor cost. To the extent that we are not able to pass such increased costs on to our customers, our gross margin and our results of operations would be adversely affected.

To reduce our exposure to price volatility of construction materials, we typically enter into contracts with third party construction contractors pursuant to which the construction contractors are responsible for procuring most of the construction materials for our property development projects. Such construction contracts are typically fixed or capped unit price contracts where the unit price of the construction materials is fixed or capped and the total price payable depends on our quantity requirement. Similarly, under the terms of most of our construction contracts, labor wages are paid by the construction contractors and increasing costs of labor are born by the contractors during the term of such contracts. However, we are exposed to price volatility of labor and construction materials to the extent that we periodically enter into new or renew our construction contracts at different terms during the life of a project, which may span over several years, or if we hire construction workers directly or procure the construction materials directly from suppliers, any of which may result in increased cost of sales and decreased profit margin. Furthermore, we typically pre-sell our properties prior to their completion and we will not be able to pass the increased costs on to our customers if construction costs increased subsequent to the time of such pre-sale. In addition, as we typically procure building equipment ourselves, such as elevators, interior decoration materials and air conditioning systems, directly from suppliers, we are directly exposed to the price volatility of building equipment.

Availability and Cost of Land

To have a steady stream of properties available for sale and to achieve continuous growth in the long term, we need to replenish and increase land reserves suitable for the development of our projects at commercially acceptable prices. Land acquisition costs are one of the primary components of our cost of sales for property development, which is consisted of land premium and where necessary, the cost of demolition of existing buildings and relocation of residents. We expect competition among property developers for land reserves that are suitable for property development to remain intense. In addition, PRC governmental land supply policies and implementation measures may further intensify competition for land in China among property developers. For example, although privately held land use rights are not prevented from being traded in the secondary market, the statutory means of public tender, auction and listing-for-sale practice in respect of the grant of state-owned land use rights is likely to increase competition for available land and to increase land acquisition costs. Furthermore, in November 2009, the PRC government raised the minimum down-payment of land premium to 50% and now requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions. Such change of policy may materially and adversely affect our cash flow and our ability to acquire suitable land for our operations.

LAT

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 appreciated value of the property. No LAT is payable for the sale of ordinary residential properties if the appreciation value does not exceed 20% of the "total deductible items," as such term is defined in the relevant PRC tax laws. Whether a property qualifies for the ordinary standard residential property exemption is determined by the local government taking into consideration the property's plot ratio, aggregate GFA and selling price. However, sales of luxury residences and commercial properties are generally subject to higher LAT rates as they typically have higher appreciation values, and thus are not eligible for such an exemption. As a result, our LAT expenses would depend on the type of properties that we develop, which will in turn, impact our results of operations. We incurred LAT expenses of RMB2.6 million, RMB104.2 million and RMB263.2 million (US\$38.6 million) in 2007, 2008 and 2009, respectively. We believe we have accrued all LAT payable on our property sales and transfers in accordance with the progressive rates specified in relevant PRC tax laws, less amounts previously paid under the levy method applied by relevant PRC local tax authorities. However, the provision for LAT requires our management to use a significant amount of judgment and estimates with respect to, among other things, the anticipated proceeds to be derived from the sale of the entire phase of the project or the entire project, the amount of land appreciation and the various deductible items. The relevant PRC local tax authorities may not agree with our estimates or the

basis on which we calculate our LAT liabilities. If the LAT provisions we have made are substantially lower than the actual LAT amounts assessed by the relevant PRC local tax authorities in the future, our results of operations and cash flows will be materially and adversely affected.

Access to and Cost of Financing

Borrowing is an important source of funding for our property developments. As of December 31, 2007, 2008 and 2009, our outstanding borrowings amounted to RMB367.9 million, RMB726.8 million and RMB3,440.1 million (US\$504.0 million), respectively. As commercial banks in China link the interest rates on their borrowings to the benchmark lending rates published by PBOC, any increase in such benchmark lending rates will increase the interest costs for financing our developments. The effective weighted average interest rate for our fixed rate borrowings were 7.42%, 8.96% and 5.36% as of December 31, 2007, 2008 and 2009, respectively, and for our variable rate borrowings were 4.70%, 8.36% and 4.57% as of December 31, 2007, 2008 and 2009, respectively. Our access to capital and cost of financing are affected by restrictions imposed from time to time by the PRC government on bank lending for property development. A significant portion of our finance costs are capitalized rather than being expensed at the time they are incurred to the extent such costs are directly attributable to the acquisition and construction of a project or a projected phase. The amounts of capitalized finance costs under completed properties for sales were approximately RMB29,000, RMB22.4 million and RMB6.5 million (US\$1.0 million) as of December 31, 2007, 2008 and 2009, respectively. The amounts of capitalized finance costs for properties for sales — under development were approximately RMB8.3 million, RMB29.7 million and RMB151.6 million (US\$22.2 million) as of December 31, 2007, 2008 and 2009, respectively. Our capitalized finance costs included in our cost of sales in 2007, 2008 and 2009 was RMB5.5 million, RMB13.5 million and RMB24.7 million (US\$3.6 million), respectively. An increase in our finance costs would negatively affect our profitability and results of operations and the availability of financing will affect our ability to engage in our project development activities, which will negatively affect our results of operations.

Timing of Property Development

The number of property developments that a developer can undertake during any particular period is limited due to substantial capital requirements for land acquisitions and construction costs as well as limited land supply. In addition, significant time is required for property developments and it may take many months or possibly years before pre-sales of certain property developments occur. Moreover, while the pre-sale of a property generates positive cash flow for us in the period in which it is made, we must place a portion of such proceeds in restricted bank accounts and may only use such cash for specified purposes, and no sales revenue is recognized in respect of such property until the relevant property is delivered to the purchaser. In addition, as market demand is not stable, sales revenue in a particular period can also depend on our ability to gauge the expected demand in the market at the expected launch time for completion of a particular project. As a result, our results of operations have fluctuated in the past and are likely to continue to fluctuate in the future.

Changes in Product Mix

The prices and gross profit margins of our products vary by the type of properties we develop and sell. Our gross profit margin is affected by the proportion of sales revenue attributable to our high gross margin products compared to sales revenue attributable to lower gross margin products. Commercial properties and office spaces in general command higher selling prices than residential properties, and the proportion of commercial/office and residential properties sold may affect our revenue and profitability during the relevant period. In 2007, 2008 and 2009, the gross margin for our commercial/office properties was 54.3%, 61.1% and 63.0%, respectively, and the gross margin for our residential properties was 26.6%, 27.2% and 32.0%, respectively. In addition, properties in larger scale projects will typically command a higher selling price as the overall development approaches completion due to the attractiveness of a more established development, thereby increasing our gross margin during the relevant period. Our product mix varies from period to period due to a number of reasons, including government-regulated plot ratios, project locations, land size and cost, market conditions and our development planning. We adjust our product mix from time to time and time our project launches according to our development plans.

Change in Fair Value of our Investment Properties

Under HKFRS, we are required to reassess the fair value of our completed investment properties as of the date of the consolidated statement of financial position, and gains or losses arising from changes in the fair value of our investment properties are included in our consolidated statement of comprehensive income in the period in which they arise. As of December 31, 2007, 2008 and 2009, the fair value of our investment properties, which include investment properties that are under development, were RMB459.0 million, RMB476.1 million and RMB581.4 million (US\$85.2 million), respectively. In 2007, 2008 and 2009, we experienced a gain on fair value changes of investment properties of RMB86.9 million, RMB13.8 million and RMB34.5 million, (US\$5.1 million) respectively. The fair value of each of our investment properties is likely to continue to fluctuate from time to time in the future, and volatility of our results of operations may increase as a result of fair value gains or losses. Any decrease in the fair value of our investment properties would adversely affect our profitability. In addition, fair value gains or losses do not give rise to any change to our cash position unless the relevant investment property is sold. Therefore, we may experience constraints on our liquidity even though our profitability increases.

Pre-sales

Proceeds from pre-sales of properties under development constitute the most important source of our operating cash inflow during our project development process. PRC law allows us to pre-sell properties before their completion upon satisfaction of certain conditions and requires us to use the pre-sale proceeds to develop the projects that are pre-sold. The amount and timing of cash received from pre-sales are affected by a number of factors, including timing and other restrictions on pre-sales imposed by the relevant PRC laws and regulations, market demand and the number for our properties that are available for pre-sale. A restriction on our ability to engage in the pre-sales of our properties could result in a reduced cash inflow, which would increase our reliance on external financing and increase our finance costs, which could have an adverse effect on our ability to finance our continuing property developments and our results of operations.

Certain Income Statement Items

Revenue

Our revenue comprises revenue derived from (i) sales of our developed properties, (ii) lease of investment properties, (iii) provision of property agency and related services, (iv) provision of property operation and related services, (v) provision of hotel management and related services, and (vi) other operations. The following table sets forth the revenue attributable to each of the components above:

	For the Year Ended December 31,						
	2007		2008		2009		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Property development	619,168	80.2	1,064,604	90.7	2,322,037	340,180	94.4
Property investment	10,649	1.4	11,029	0.9	10,806	1,583	0.4
Property agency services . . .	97,151	12.6	40,224	3.5	57,775	8,464	2.3
Property operation services . .	41,857	5.4	57,875	4.9	63,900	9,361	2.6
Hotel services	–	–	479	0.0	4,155	609	0.3
Others	3,232	0.4	–	–	–	–	–
Total	<u>772,057</u>	<u>100.0</u>	<u>1,174,211</u>	<u>100.0</u>	<u>2,458,673</u>	<u>360,197</u>	<u>100.0</u>

Property Development

We recognize revenue from the sale of a property when the significant risks and rewards of ownership have been transferred to the purchaser, which is when the relevant property has been completed and the possession of the property has been delivered to the purchaser. Revenue from property development represents proceeds from sales of our properties held for sales. As we derive a majority of our revenue from property development, our results of operations for a given period depend upon the GFA of our properties available for sale during that period, the market demand for those properties and the selling prices of such properties. Conditions of the property markets in which we operate change from period to period and are affected by the economic, political and regulatory developments in the PRC in general as well as in the cities and regions in which we operate. See “— Key Factors Affecting Our Results of Operations.” The table below sets forth, for the periods so indicated, total revenue derived from each of our projects, the aggregate GFA of properties sold, the average selling prices per square meter for these properties, as measured by dividing the revenue by the aggregate GFA sold and the types of properties sold:

	For the Years Ended December 31,									Types of Properties Sold ⁽¹⁾
	2007			2008			2009			
	Total Revenue	GFA Sold	Avg. Selling Price/Square Meter	Total Revenue	GFA Sold	Avg. Selling Price/Square Meter	Total Revenue	GFA Sold	Avg. Selling Price/Square Meter	
(in RMB thousands)	(square meters)	(in RMB)	(in RMB thousands)	(square meters)	(in RMB)	(in RMB thousands)	(square meters)	(in RMB)		
Shenzhen										
Shenzhen Pair Life										
(深圳錦上花)	1,136	168	6,762	-	-	-	-	-	-	R, C
Self Life (趣園)	1,280	53	24,151	-	-	-	-	-	-	R
Flower Harbor										
(花港家園)	-	-	-	64,402	7,640	8,430	135,792	12,540	10,829	R
Shenzhen Future Plaza										
(深圳香年廣場)	-	-	-	432,495	22,618	19,122	571,340	29,122	19,619	O
Chengdu										
Fantasia Special Town										
(別樣城)	316,489	127,646	2,479	-	-	-	-	-	-	R, C
Chengdu Love Forever										
(成都花郡)	300,263	73,207	4,102	281,628	56,396	4,994	1,054,296	161,879	6,513	R, C
Chengdu My Place										
(成都花好園)	-	-	-	179,924	42,601	4,223	-	-	-	R, C, O
Grand Valley (大溪谷)	-	-	-	106,155	27,881	3,807	298,837	67,987	4,396	R, C
Fantasia Town (花樣城)	-	-	-	-	-	-	261,772	81,468	3,213	R
	<u>619,168</u>	<u>201,074</u>		<u>1,064,604</u>	<u>157,136</u>		<u>2,322,037</u>	<u>352,996</u>		

Note:

(1) Types of properties include: (i) “R,” which stands for “residential,” (ii) “C,” which stands for “commercial,” (iii) “O,” which stands for “office and others,” including office and industrial.

Consistent with industry practice, we typically enter into purchase contracts with customers while the properties are still under development but after satisfying the conditions for pre-sales in accordance with PRC laws and regulations. See “Business — Property Development — Pre-sale, Sales and Marketing.” In general, there is a time difference, typically ranging from several months to one year, between the time we commence pre-selling properties under development and the completion of the construction of such properties. We do not recognize any revenue from the pre-sales of our properties until such properties are completed and the properties have been delivered to the purchasers, even though we receive payments at various stages prior to delivery. Before the delivery of a pre-sold property, payments received from purchasers are recorded as “Deposits received on sale of properties” under “Current Liabilities” on our consolidated statements of financial position. As our revenue from sales of properties are recognized upon the delivery of properties, the timing of such delivery may affect not only the amount of our property development revenue but may also cause changes in other payables and accruals to fluctuate from period to period.

Property Investment

Revenue derived from our properties held for investment represents revenue received and receivable from our investment properties, which has historically been generated from the rental of offices, retail shops and car parking spaces, and recognized on a straight-line basis over the relevant lease period. Going forward, we expect that our revenue from investment properties will increase as we develop additional properties and as we expand the properties that are held for investment. We believe the increase of such revenue will help us reduce over-reliance on a particular sector of the property market, diversify our risk exposure and provide us with a stable recurring revenue.

Property Agency Services

Revenue derived from property agency services provided by our subsidiary Xingyan Property Consultancy is recognized when services are provided. This means that for primary property agency services, revenue is recognized when a successful sale of a property has occurred, which is defined in each contract and is usually achieved after the purchaser has executed the purchase contract, made the required down payment, and the purchase contract has been registered with the relevant government authorities. Each agency contract specifies commission rates expressed as a percentage of the project transaction value, defined as the aggregate sales proceeds of all property units we have sold for the project. Typically, agency contracts stipulate that the developer clients are responsible for the cost of promotion and advertising, either by paying the costs directly or reimbursing us for the promotion and advertising costs we have incurred. Commissions are typically settled at the end of a sales period typically lasting several months. During the time between sales are actually made and the time of collection, commissions are recorded as “trade and other receivables” on our consolidated statement of financial position. Additional revenue may also be earned if certain sales and other performance targets are achieved, and is recognized when the relevant required targets are accomplished. Services are considered provided and revenue is recognized for secondary property brokerage services upon execution of a transaction agreement between the buyer/lessee and the seller/lessor and for property consulting and advisory services when performance obligations under the relevant service contract are completed and the customer accepts the contracted deliverable.

Property Operation Services

Revenue derived from property operation services is recognized when the related services are provided. Our subsidiary Shenzhen Fantasia Colour Life Technology Co., Ltd. (“Shenzhen Fantasia Colour”) and its subsidiaries provide property operation services, which include property management, building equipment for installations, maintenance and repair and other value-added services, for our properties as well as properties developed by other developers. The time lag between when the invoices are sent to clients and the time of collection is reflected in “trade and other receivables” on our consolidated statement of financial position.

Hotel Services

Revenue derived from hotel management and related services is recognized when such services are provided. Our subsidiaries Shenzhen Caiyue Hotel Management Co., Ltd. (“Shenzhen Caiyue Hotel Management”) and Shenzhen Caiyue Hotel Co., Ltd. (“Shenzhen Caiyue Hotel Co., Ltd.”), started providing hotel services in December 2008. We expect our revenue from hotel services to increase in the future as we intend to provide our hotel services to additional hotels, including our own boutique hotels that are currently under development.

Cost of Sales

Cost of sales for our property development business primarily represents the costs we incur directly for our property development activities. The principal component of cost of sales for our property development business is the cost of properties sold, which includes the direct cost of construction, costs of land and capitalized finance costs on related borrowings during the period of construction.

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. Historically, construction material costs, which are generally included in the payments to the construction contractors, particularly the cost of steel and cement, have been a major cause of fluctuations in our construction costs. Price movements of other supplies in relation to property developments, including elevators, interior decoration materials and air conditioning systems, may also increase our construction costs. Costs associated with design and construction of the foundation are another major component of our construction costs and will vary according to the area and height of the buildings as well as the geological conditions of the site. Therefore, construction costs of a property development may be higher if the conditions of a site require more complex designs and processes or more expensive materials in order to provide the necessary foundation support. In addition, with the PRC government’s recent policies aiming to enhance the protection for employees and increased employers’ liability in many circumstances, our labor costs may increase in the future which in turn will increase our construction costs.

Costs of land include costs relating to the acquisition of rights to occupy, use and develop land, and primarily represent land premiums incurred in connection with land grants from the PRC government or land obtained in the secondary market by transfer, cooperative arrangement, corporate acquisition or otherwise. Our costs of land are influenced by a number of factors, including the location of the property, the timing of the acquisition, the project’s plot ratios, the method of acquisition and changes in PRC regulations. We may also be required to pay demolition and resettlement costs.

We capitalize a significant portion of our finance costs to the extent that such costs are directly attributable to the acquisition and construction of a project. In general, we capitalize finance costs incurred from the commencement of the planning and design of a project, which typically precedes the receipt of a construction works commencement permit, until the completion of construction. For any given project, the finance costs incurred after the end of the month in which construction on the project is completed are not capitalized, but are instead accounted for as finance costs in the period in which they are incurred.

Our cost of sales for our property investment, property agency services, property operation services and hotel services primarily consists of direct costs related to such business activities, which primarily include, depending on the type of businesses, salaries and commissions, costs of rental, utility and consumable products for our on-site sales offices for our primary property agency services, certain office expenses and advertising and marketing expenses.

The table below sets forth information relating to our cost of sales for each of our business segments and as a percentage of total cost of sales for the periods indicated:

	For the Year Ended December 31,						
	2007		2008		2009		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Property development							
Construction costs	368,974	67.2	478,215	67.9	1,109,500	162,542	77.5
Land use rights	78,409	14.3	133,187	18.9	220,245	32,266	15.4
Capitalized finance costs . .	5,527	1.0	13,533	1.9	24,659	3,613	1.7
Total property development . .	452,910	82.5	624,935	88.7	1,354,404	198,421	94.6
Property investment	324	0.1	615	0.1	594	87	0.0
Property agency services . . .	74,723	13.6	46,734	6.6	43,804	6,417	3.1
Property operation services . .	20,513	3.7	29,683	4.2	28,913	4,236	2.0
Hotel services	–	–	2,767	0.4	4,097	600	0.3
Others.	750	0.1	–	–	–	–	–
Total	549,220	100.0	704,734	100.0	1,431,812	209,762	100.0

Changes in Fair Value of Investment Properties

Investment properties are properties held to earn rental income and/or for capital appreciation. 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. Property that is being constructed or developed for future use as an investment property is classified as an investment property. We have concluded the fair value of the investment properties under development cannot be measured reasonably, therefore, our investment properties under development continue to be measured at cost until such time as fair value can be determined or construction is completed. Our investment properties are currently comprised primarily of office units, retail spaces and car parking spaces. Once an investment property is sold or if the investment property is permanently withdrawn from use and no future economic benefits are expected, gains or losses on disposals of such investment property are recognized as “Gain/loss on disposal 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 period in which they arise. Investment properties are initially recognized at cost, subsequent to initial recognition, investment properties are stated on our consolidated statement of comprehensive income as non-current asset at fair value, which reflects market conditions as of the date of our consolidated statement of comprehensive income. The valuation is determined by independent and qualified professionals and involves the exercise of professional judgment on the part of the valuation professionals and the use of certain assumptions, such as making reference to comparable sales evidence available in the market.

Selling and Distribution Expenses

Selling and distribution expenses include sales commissions, advertising and promotion expenses related to the sale of our properties and the promotion of our brand and services, which include advertisements on television and in newspapers, magazines, on billboards, promotional offers made directly to our customers and certain other promotional events.

Administrative Expenses

Administrative expenses include staff costs, office rental payments, depreciation and amortization, travelling and entertainment expenses, professional fees and general office expenses. We have experienced significant increase in our administrative expenses in connection with the continued growth of our property development business during the three years ended December 31, 2009, which was primarily due to an increase in the number of our employees and the increase in the average salaries for our employees.

Finance Costs

Finance costs consist primarily of interest costs on borrowings net of capitalized finance costs. We capitalize a portion of our finance costs to “properties for sales” on our consolidated statements of financial position to the extent that such costs are directly attributable to the construction of a project. Finance costs fluctuate from period to period due primarily to fluctuations in our level of outstanding indebtedness and the interest rates on such indebtedness. Since the development period for a property development does not necessarily coincide with the repayment period of the relevant loan, not all of the finance costs related to a property development can be capitalized. As a result, the period to period fluctuation of our finance costs is also attributable to the amount and timing of capitalization. See “— Cost of Sales.”

Income Tax Expenses

Income tax expenses represent PRC corporate income tax and LAT payable by our subsidiaries in China. The corporate income tax rate that was generally applicable in China during the three years ended December 31, 2009 was 33% of the taxable income prior to 2008 and 25% of the taxable income from 2008. Prior to January 1, 2008, our subsidiaries located in Shenzhen and Fantasia (Chengdu) Development Co., Ltd. were subject to a 15% tax rate while our other subsidiaries were subject to a 33% tax rate. Under the EIT Law that became effective on January 1, 2008, a uniform income tax rate of 25% is imposed on the taxable income of both domestic enterprises and foreign-invested enterprises, enterprises that were subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after implementation of the EIT Law. As a result of the EIT Law, the applicable enterprise income tax rate for our subsidiaries in Shenzhen is 18%, 20%, 22% and 24% in 2008, 2009, 2010 and 2011, respectively and 25% for 2012 onwards. In addition, Fantasia (Chengdu) Development Co., Ltd. will also transition to the new tax rate of 25% although the schedule of such transition has not been determined as of date of this offering memorandum, by the relevant tax authorities. The tax rate for our other subsidiaries in China will be reduced to 25%. During the three years ended December 31, 2009, our effective income tax rate has fluctuated in accordance with the geographic region in which the sale of our property development had occurred during the period. For example, most of our subsidiaries in Chengdu were subject to a higher tax rate during the three years ended December 31, 2009, which was 33% prior to 2008 and 25% thereafter, as compared to our subsidiaries in Shenzhen, where the tax rate was 15% prior to 2008, 18% in 2008, 20% in 2009 and 22% in 2010. As a result, if we derived a higher portion of our revenue from our subsidiaries in Chengdu that were subjected to the higher tax rate in a period during the three years ended December 31, 2009, our effective income tax rate for that period will be higher, such as in 2007, when we derived almost all of our property development revenue from our subsidiaries in Chengdu, as compared to 2008, when a higher percentage of our property development revenue was derived from our subsidiaries in Shenzhen.

We are currently not subject to Cayman Islands income tax pursuant to an undertaking obtained from the Governor in Cabinet for a period of twenty years from October 30, 2007.

LAT expenses represent provisions for the estimated LAT payable in relation to our properties delivered during a period. Property developers in China that receive income from the sale or transfer of state-owned land use rights, buildings and their attached facilities are subject to LAT at progressive rates ranging from 30% to 60% of the “appreciated value of the property.” However, no LAT is payable for the sale of ordinary residential properties if the appreciation value does not exceed 20% of the “total deductible items,” as such term is defined in the relevant tax laws. Whether a property qualifies for the ordinary standard residential property exemption is determined by the local government taking into consideration the property’s plot ratio, aggregate GFA and sale price.

We provided for deferred tax, using the balance sheet liability method, on temporary 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. Our Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statements of financial position date. Deferred taxation liabilities are generally recognized for all taxable temporary differences, and deferred taxation assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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. Significant management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Critical Accounting Policies

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operation, are set forth in detail in Note 3 to our consolidated financial statements included in this offering memorandum. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition, cost or expense allocation and provision. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our consolidated financial statements.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for properties sold and services provided in the normal course of business, net of discounts. Revenue from sales of properties is recognized when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits received on properties sold prior to the date of revenue recognition are included in the consolidated statements of financial position as deposits received on sale of properties under current liabilities.

Cost of Sales and Properties for Sale

We recognize the cost of sales of our properties for a given period to the extent that revenue from such properties has been recognized in such period. Prior to their delivery, properties under development and properties for sale are included on our consolidated statements of financial position as “properties for sale” at the lower of cost and net realizable value. The cost of sales for each property that we sell includes construction costs, costs of land and capitalized finance costs on related borrowings during the period of construction, based upon the total GFA of properties expected to be sold in each project, which are allocated to each property based on the estimated relative GFA of each property sold. 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. If there is any change to the estimated total development cost subsequent to the initial sale of a project such as fluctuations in construction costs or changes in development plans, we will need to finalize the cost with the contractor and allocate the increased or decreased cost to all the properties in the project, which will increase or decrease the unit costs of, and erode or improve the margins realizable on, the properties of the project during the period in which such change occurs.

We record the cost of properties for sales on our consolidated statements of financial position based on the costs of acquired land for development and the invoices and construction progress reports of our construction contractors and the construction supervisory companies in respect of the completion of construction projects.

Properties for sales which have either been pre-sold or which are intended for sale and are expected to be completed within the normal operating cycle from the consolidated statements of financial position date are classified as current assets.

Net realizable value for our properties under development is determined by reference to management estimates of the selling prices based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs of completion. Net realizable value for our completed properties for sales is determined by reference to management estimates of the selling price based on prevailing market prices, less applicable variable selling expenses. We are required to revise these estimates if there is a change in market condition or demand. If actual market conditions are less favorable than those projected by our management, additional adjustments to the value of properties under development may be required.

Valuation of Our Investment Properties

Our investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers used valuation methods that involve certain estimates. In relying on the valuation report, our management team has exercised its judgment and is satisfied that these valuation methods reflect current market conditions.

Capitalized Finance Costs

We capitalize a significant portion of our finance costs to the extent that such costs are directly attributable to the acquisition and construction of a project or a project phase. In general, we capitalize finance costs incurred from the commencement of development of a relevant project until the completion of construction. For purposes of capitalization of finance costs, development commences when we begin the planning and design of a project with the relevant loan proceeds and ends after the relevant construction has been completed. For any given project, the finance costs incurred after the end of the month in which construction on the project is completed are not capitalized, but are instead accounted for in our consolidated statements of comprehensive income as finance costs in the period in which they are incurred.

Results of Operations

The following table sets forth our results of operations for the periods indicated which are derived from the consolidated statements of comprehensive income included in this offering memorandum. Our historical results presented below are not necessarily indicative of future results.

	For the Year Ended December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	US\$
	(in thousands)			
Revenue	772,057	1,174,211	2,458,673	360,197
Cost of sales	(549,220)	(704,734)	(1,431,812)	(209,762)
Gross profit	222,837	469,477	1,026,861	150,435
Other income, gains and losses	2,726	59,034	26,566	3,892
Gain on fair value changes of investment properties	86,875	13,807	34,476	5,051
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	2,170	302	–	–
Selling and distribution expenses	(39,616)	(49,837)	(80,480)	(11,790)
Administrative expenses	(94,458)	(162,677)	(177,229)	(25,964)
Finance costs	(12,167)	(69,941)	(51,800)	(7,589)
Impairment loss recognized in respect of goodwill	–	(2,305)	–	–
Share of results of associates	(1,548)	(3,789)	(1,899)	(278)
Profit before taxation	166,819	254,071	776,495	113,757
Income tax expense	(82,552)	(156,550)	(407,050)	(59,633)
Profit and total comprehensive income for the year	<u>84,267</u>	<u>97,521</u>	<u>369,445</u>	<u>54,124</u>
Profit for the year attributable to:				
Owners of the Company	68,797	84,259	373,469	54,714
Minority interests	15,470	13,262	(4,024)	(590)
	<u>84,267</u>	<u>97,521</u>	<u>369,445</u>	<u>54,124</u>

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

Revenue. Our revenue increased by 109.4% to RMB2,458.7 million (US\$360.2 million) for the year ended December 31, 2009 from RMB1,174.2 million in 2008. This was due primarily to an increase in revenue derived from our property development business.

The below table and discussion set forth the revenue attributable to each of our business segments for the years indicated:

	For the Year Ended December 31,				
	2008		2009		
	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)				
Property development	1,064,604	90.7	2,322,037	340,180	94.4
Property investment	11,029	0.9	10,806	1,583	0.4
Property agency services	40,224	3.5	57,775	8,464	2.3
Property operation services	57,875	4.9	63,900	9,361	2.6
Hotel services	479	0.0	4,155	609	0.3
Total	<u>1,174,211</u>	<u>100.0</u>	<u>2,458,673</u>	<u>360,197</u>	<u>100.0</u>

Property development. Revenue derived from property development increased by 118.1% to RMB2,322.0 million (US\$340.2 million) for the year ended December 31, 2009, from RMB1,064.6 million in 2008. This increase was due primarily to an increase in total GFA sold. Selling prices of our properties sold in 2009 increased in general as compared to those in 2008. However, as we sold Fantasia Town, a new property we started to sell in 2009, at relatively low prices as compared to our other properties, our average selling price of properties in 2009 decreased slightly as compared to that in 2008. The table below sets forth the total revenue derived from each project:

	For the Year Ended December 31,				
	2008		2009		
	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)				
Chengdu Love Forever (成都花郡) . . .	281,628	26.5	1,054,296	154,455	45.4
Shenzhen Future Plaza (深圳香年廣場)	432,495	40.6	571,340	83,702	24.6
Fantasia Town (花樣城)	–	–	261,772	38,350	11.3
Flower Harbor (花港家園)	64,402	6.0	135,792	19,893	5.8
Grand Valley (大溪谷)	106,155	10.0	298,837	43,780	12.9
Chengdu My Place (成都花好園)	179,924	16.9	–	–	–
Total	<u>1,064,604</u>	<u>100.0</u>	<u>2,322,037</u>	<u>340,180</u>	<u>100.0</u>

Property investment. Revenue derived from property investment remained stable at approximately RMB10.8 million (US\$1.6 million), as compared to RMB11.0 million in 2008.

Property agency services. Revenue derived from property agency services increased by 43.6% to RMB57.8 million (US\$8.5 million) for the year ended December 31, 2009 from RMB40.2 million in 2008. This increase was due primarily to increase in the aggregate sale price of the properties that our property agency services business sold in 2009 as a result of an increase in general real estate activities in 2009 as compared to that in 2008.

Property operation services. Revenue derived from property operation services increased by 10.4% to RMB63.9 million (US\$9.4 million) for the year ended December 31, 2009 from RMB57.9 million in 2008. This increase was due primarily to an increase in the GFA of properties that we managed during in 2009.

Hotel services. Revenue derived from hotel services increased by 767.4% to RMB4.1 million (US\$0.6 million) for the year ended December 31, 2009 from RMB0.5 million in 2008. This increase was due primarily to an increase in the occupancy rate of the hotel during 2009.

Cost of sales. Our cost of sales increased by 103.2% to RMB1,431.8 million (US\$209.8 million) for the year ended December 31, 2009 from RMB704.7 million for the same period in 2008. This increase was due primarily to an overall increase in construction costs, land costs and finance costs as a result of the increase in the total GFA sold for the year ended December 31, 2009 as compared to the same period in 2008.

Gross profit. As the result of the foregoing, our gross profit increased by 118.7% to RMB1,026.9 million (US\$150.4 million) for the year ended December 31, 2009 from RMB469.5 million for the same period in 2008, while our gross margin increased to 41.8% in 2009 from 40.0% in 2008. This increase was in line with the increase in the total revenue in 2009 and our change in product mix.

Other income, gains and losses. Our other income, gains and losses decreased by 55.0% to RMB26.6 million (US\$3.9 million) for the year ended December 31, 2009 from RMB59.0 million for the same period in 2008. This decrease was due primarily to approximately RMB35.6 million in exchange gain in 2008, while it was a loss of approximately RMB1.3 million (US\$0.2 million) in 2009. The exchange gain was due to the appreciation of Renminbi against the U.S. dollar related to the US\$100 million pre-IPO bond, which was denominated in U.S. dollars.

Gain on fair value changes of investment properties. Our gain on fair value changes of investment properties increased by 149.7% to RMB34.5 million (US\$5.1 million) from RMB13.8 million in 2008. This increase was due primarily to the more favorable property market condition in 2009 as compared to 2008.

Recognition of change in fair value of completed properties for sale upon transfer to investment properties. Our recognition of change in fair value of completed properties for sale upon transfer to investment properties decreased from RMB0.3 million in 2008 to nil in 2009.

Selling and distribution expenses. Our selling and distribution expenses increased by 61.5% to RMB80.4 million (US\$11.8 million) for the year ended December 31, 2009 from RMB49.8 million for the same period in 2008. This increase was due primarily to an increase in general sales, marketing and advertising activities resulting from an increase in the number of properties that were pre-sold in 2009 as compared to that in 2008.

Administrative expenses. Our administrative expenses increased by 8.9% to RMB177.2 million (US\$26.0 million) for the year ended December 31, 2009 from RMB162.7 million for the same period in 2008. This increase was due primarily to an increase in professional fees and other expenses incurred in connection with our IPO on the Hong Kong Stock Exchange in November 2009.

Impairment loss recognized in respect of goodwill. In 2008, we recognized an impairment loss of RMB2.3 million in respect of goodwill associated with our acquisition of Shenzhen Liantang Property Management Co., Ltd (“Shenzhen Liantang Management”). We did not have such impairment loss in 2009.

Share of results of associates. Our share of loss of associates was RMB3.8 million and RMB1.9 million (US\$0.3 million) in 2008 and 2009, respectively, due primarily to loss incurred by our associates.

Finance costs. Our finance costs decreased by 25.9% to RMB51.8 million (US\$7.6 million) for 2009 from RMB69.9 million for the same period in 2008. This decrease was due primarily to an increase in interests capitalized in properties for sales, which was partially offset by an increase in interest expense as a result of an increase in borrowing.

Income tax expense. Our income tax expense increased by 160.0% to RMB407.1 million (US\$59.6 million) for 2009 from RMB156.6 million in 2008. This increase was due primarily to an increase in enterprises income tax and land appreciation tax as a result of increase in properties sold in 2009 as compared to that in 2008.

Profit and Total Comprehensive Income Attributable to Owners of the Company. Profit and total comprehensive income attributable to owners of the Company increased by 343.1% to approximately RMB373.5 million (US\$54.7 million) in 2009 from approximately RMB84.3 million in 2008. This increase was due primarily to an increase in properties sold in 2009 as compared to that in 2008. Our net profit margin increased to 15.2% in 2009 from 7.2% in 2008.

Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

Revenue. Our revenue increased by 52.1% to RMB1,174.2 million (US\$172.0 million) in 2008 from RMB772.1 million in 2007. This was due primarily to an increase in revenue derived from our property development business and property operation services business, which was partially offset by a decrease in revenue from our property agency services.

The below table and discussion set forth a summary of revenues derived from each of our business segments:

	For the Year Ended December 31,			
	2007		2008	
	RMB	%	RMB	%
	(in thousands, except for percentages)			
Property development	619,168	80.2	1,064,604	90.7
Property investment	10,649	1.4	11,029	1.0
Property agency services	97,151	12.6	40,224	3.4
Property operation services	41,857	5.4	57,875	4.9
Hotel services	–	–	479	0.0
Others	3,232	0.4	–	–
Total	<u>772,057</u>	<u>100.0</u>	<u>1,174,211</u>	<u>100.0</u>

Property development. Revenue derived from property development increased by 71.9% to RMB1,064.6 million in 2008 from RMB619.2 million in 2007. This increase was due primarily to an 120.0% increase in the average selling price of properties sold to our customers in 2008 as compared to 2007, which was partially offset by a decrease in total GFA sold to our customers in 2008 as compared to 2007. Average selling price of properties sold to our customers increased in 2008 due to the overall increase of property values in Shenzhen and Chengdu at the time such property was pre-sold and the higher average selling price of Shenzhen Future Plaza (深圳香年廣場), a project that is usually purchased by customers as office space which has higher market price than residential properties, as compared to the other more residential oriented properties. The following table sets forth the revenue generated from each project in 2007 and 2008:

	For the Year Ended December 31,			
	2007		2008	
	RMB	%	RMB	%
	(in thousands, except for percentages)			
Fantasia Special Town (別樣城)	316,489	51.1	–	–
Chengdu Love Forever (成都花郡)	300,263	48.5	281,628	26.5
Shenzhen Pair Life (深圳錦上花)	1,136	0.2	–	–
Self Life (趣園)	1,280	0.2	–	–
Shenzhen Future Plaza (深圳香年廣場)	–	–	432,495	40.6
Chengdu My Place (成都花好園)	–	–	179,924	16.9
Grand Valley (大溪谷)	–	–	106,155	10.0
Flower Harbor (花港家園)	–	–	64,402	6.0
Total	<u>619,168</u>	<u>100.0</u>	<u>1,064,604</u>	<u>100.0</u>

Property investment. Revenue derived from property investment increased by 3.6% to RMB11.0 million in 2008 from RMB10.6 million in 2007. This increase was due primarily to an increase in the number of investment properties in 2008 as compared to 2007.

Property agency services. Revenue derived from property agency services decreased by 58.6% to RMB40.2 million in 2008 from RMB97.2 million in 2007. This decrease was due primarily to a decrease in the aggregate sale price of the properties that our property agency services business sold in 2008 as a result of a decrease in general real estate activities in 2008 as compared to 2007.

Property operation services. Revenue derived from property operation services increased by 38.3% to RMB57.9 million in 2008 from RMB41.9 million in 2007. This increase was due primarily to an increase in the GFA of properties that we managed during 2008, which increased from approximately 4.4 million square meters at the end of 2007 to approximately 7.6 million square meters at the end of 2008. This increase in GFA under management was due to an increase in the number of properties under management.

Hotel services. Revenue derived from hotel services was RMB0.5 million in 2008, which was mainly derived from hotel management and other related services provided by us that began in December 2008. We derived nil revenue from hotel services in 2007 as we did not provide hotel services until 2008.

Cost of sales. Our cost of sales increased by 28.3% to RMB704.7 million in 2008 from RMB549.2 million in 2007. This increase was due primarily to an overall increase in construction costs, land costs and financing costs as a result of the increase in material and labor costs and higher interest rate on capitalized finance costs in 2008 as compared to 2007.

Gross profit and margin. As the result of the foregoing, our gross profit increased by 110.7% to RMB469.5 million in 2008 from RMB222.8 million in 2007. Our gross margin increased to 40.0% in 2008 from 28.9% in 2007. This increase was due primarily to a higher percentage of revenue derived from Shenzhen Future Plaza (深圳香年廣場) which have a higher gross margin as compared to our other residential oriented properties, in 2008 as compared to 2007.

Other income, gains and losses. Our other income, gains and losses increased by 2,065.6% to RMB59.0 million in 2008 from RMB2.7 million in 2007. This increase was due primarily to RMB35.6 million in exchange gain and RMB14.1 million in government grant in 2008, which we did not experience in 2007. The exchange gain was due to the appreciation of Renminbi against the U.S. dollar related to the Pre-IPO bond, which are denominated in U.S. dollars. The government grant was due to refund of a certain portion of taxes paid during the year from the local government in Chengdu as an incentive to promote investment activities. In addition, the increase in other income was also due in part to an increase in interest income to RMB8.0 million in 2008 from RMB2.4 million in 2007 as a result of an increase in average bank balances and cash holdings in 2008 as compared to 2007.

Gain on fair value changes of investment properties. Our gain on fair value changes of investment properties decreased by 84.1% to RMB13.8 million in 2008 from RMB86.9 million in 2007. This decrease was due primarily to the more favourable property market condition in 2007 as compared to 2008.

Recognition of change in fair value of completed properties for sale upon transfer to investment properties. Our recognition of change in fair value of completed properties for sale upon transfer to investment properties decreased by 86.1% to RMB0.3 million in 2008 from RMB2.2 million in 2007. This decrease was primarily due to the decrease in the GFA of properties for sales completed in 2008 that we transferred to investment properties as compared to 2007.

Selling and distribution expenses. Our selling and distribution expenses increased by 25.8% to RMB49.8 million in 2008 from RMB39.6 million in 2007. This increase was primarily due to an increase in general sales, marketing and advertising activities resulting from an increase in the number of properties that are pre-sold in 2008 as compared to 2007 and an increase in marketing expenses related to the attendance of real estate property exhibitions.

Administrative expenses. Our administrative expenses increased by 72.2% to RMB162.7 million in 2008 from RMB94.5 million in 2007. This increase was due primarily to an increase in the total number of our employees and an increase in average salaries in connection with the continued growth of our property development business in 2008 that amounted to RMB81.7 million as compared to RMB40.8 million in 2007, an increase in professional fees to RMB19.1 million in 2008 from RMB6.5 million in 2007 incurred in connection with the Pre-IPO investment and our IPO and an increase in traveling, accommodation and entertainment expenses to RMB15.3 million from RMB12.0 million as a result of an increase in the number and the geographic diversity of properties that are under development.

Finance costs. Our finance costs increased by 474.8% to RMB69.9 million in 2008 from RMB12.2 million in 2007. This increase was due primarily to interest expense associated with the Pre-IPO bond issued at the end of 2007.

Impairment loss recognized in respect of goodwill. Our impairment loss recognized in respect of goodwill was RMB2.3 million in 2008 while the impairment loss recognized in respect of goodwill in 2007 was nil. Impairment loss recognized in respect of goodwill was incurred in 2008 as a result of impairment to the goodwill associated with our acquisition of Shenzhen Liantang.

Share of results of associates. Our share of loss of associates was RMB1.5 million and RMB3.8 million in 2007 and 2008, respectively, due primarily to loss incurred by our associates.

Income tax expense. Our income tax expense increased by 89.6% to RMB156.6 million in 2008 from RMB82.6 million in 2007. This increase was due primarily to an increase in LAT expenses to RMB104.2 million in 2008 from RMB2.6 million in 2007, which was offset by a decrease in EIT expense (including the deferred tax) from RMB80.0 million in 2007 to RMB52.3 million in 2008. LAT expenses were significantly higher in 2008 as compared to 2007 due primarily to the higher appreciated value of Shenzhen Future Plaza (深圳香年廣場) sold in 2008, a project that is usually purchased by customers as office space which has a higher market price, as compared to the primarily residential development projects that was sold in 2007 that had a lower appreciated value. The effective tax rate in relation to EIT expense decreased from 47.9% in 2007 to 20.6% in 2008. The decrease in effective tax rate was due primarily to: (i) the decrease in tax rate in Chengdu from 33% in 2007 to 25% in 2008; and (ii) the fact that we derived a larger portion of our revenue in 2008 from our subsidiaries in Shenzhen, which were subject to a lower tax rate than our subsidiaries in Chengdu. The exceptionally high effective tax rate in 2007 was also due to a deferred tax liability of RMB29.5 million recognized in that year.

Profit for the year attributable to owners of the Company. Our profit attributable to owners of the Company increased by 22.5% to RMB84.3 million in 2008 from RMB68.8 million in 2007. This increase was due primarily to increase in properties sold in 2008 as compared to 2007. Our net profit margin decreased slightly to 7.2% in 2008 from 8.9% in 2007.

Profit for the year attributable to minority interests. Our profit attributable to minority interests decreased by 14.3% to RMB13.3 million in 2008 from RMB15.5 million in 2007. Profit attributable to minority interests represented the profit shared by the minority shareholders of our subsidiaries. From 2007 to 2008, we acquired the minority interests in some of our subsidiaries from their minority shareholders. As a result, a smaller portion of our profit and total comprehensive income were attributed to such minority shareholders in 2008 as compared to 2007. The decrease in profit attributable to minority interests from 2007 to 2008 is also due in part to a larger portion of our profits derived from Shenzhen Xingyan Investment Development Co., Ltd., in which we owned a 52% equity interest, in 2007 compared to 2008.

Liquidity and Capital Resources

Cash Flows

The following table sets forth our net cash flow for the periods indicated:

	For the Year Ended December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash (used in) from operating activities . . .	(88,372)	(1,037,416)	160,786	23,555
Net cash used in investing activities	(258,328)	(460,247)	(1,010,467)	(148,034)
Net cash from financing activities	1,290,161	491,671	4,243,656	621,699
Net increase (decrease) in cash and cash equivalents	943,461	(1,005,992)	3,393,975	497,220
Cash and cash equivalents at end of year. . . .	1,320,657	303,046	3,696,488	541,539

Cash Flows from Operating Activities

Our cash used in operating activities principally comprises amounts we pay for our property development activities, which are reflected on our consolidated statements of financial position as an increase in our properties for sales. Our cash provided by operating activities is generated principally from the proceeds from the sales of our properties, including pre-sales of properties under development, as well as commissions and fees received from our property agency services, property operation services and hotel services businesses.

In 2009, our net cash from operating activities was RMB160.8 million (US\$23.6 million). Cash from operating activities for the year ended December 31, 2009 consisted primarily of an increase in deposits received for the sale of properties of RMB1,287.8 million (US\$188.7 million), a profit before taxation of RMB776.5 million (US\$113.8 million) and an increase in trade and other payables of RMB167.9 million (US\$24.6 million), partially offset by an increase in properties for sales of RMB832.8 million (US\$122.0 million) and an increase in trade and other receivables of RMB842.4 million (US\$123.4 million).

In 2008, our net cash used in operating activities was RMB1,037.4 million. Cash used in operating activities in 2008 consisted primarily of an increase in properties for sales of RMB1,358.3 million and a decrease in deposits received on sale of properties of RMB33.9 million, partially offset by a profit before taxation of RMB254.1 million, an increase in trade and other payables of RMB223.9 million and a decrease in trade and other receivables of RMB89.3 million. Our net cash used in operating activities in 2008 was primarily due to cash outflow associated with construction of Chengdu Hailrun Plaza (成都喜年廣場), Shenzhen Future Plaza (深圳香年廣場), Chengdu Love Forever (成都花郡) and other projects, which was partially offset by deposits received from the pre-sale of our Chengdu Love Forever (成都花郡) and other projects.

In 2007, our net cash used in operating activities was RMB88.4 million. Cash used in operating activities in 2007 consisted primarily of an increase in properties for sales of RMB559.0 million and a decrease in trade and other payables of RMB52.9 million, partially offset by an increase in deposits received on sale of properties of RMB520.5 million. Our net cash used in operating activities in 2007 was primarily due to cash outflow associated with construction commencement of Phase 1.1 of Grand Valley (大溪谷), Shenzhen Future Plaza (深圳香年廣場), Flower Harbor (花港家園) and Chengdu My Place (成都花好園) which was partially offset by deposits received from the pre-sale of Phase 1.1 of Grand Valley (大溪谷), certain phases of Chengdu Love Forever (成都花郡) and Chengdu My Place (成都花好園).

Cash Flows from Investing Activities

In 2009, our net cash used in investing activities was RMB1,010.5 million (US\$148.0 million). The primary factors affecting net cash used in investing activities in 2009 included: a deposit paid for acquisition of subsidiaries of RMB423.0 million (US\$62.0 million), a deposit paid for acquisition of a property project of RMB352.1 million (US\$51.6 million) and an increase in restricted bank deposits of RMB151.9 million (US\$22.3 million).

In 2008, our net cash used in investing activities was RMB460.2 million. The primary factors affecting net cash used in investing activities in 2008 included: the acquisition of additional equity interests in our subsidiaries that amounted to RMB241.8 million, the acquisition of the project company for our Chengdu Future Plaza (成都香年廣場) that amounted to RMB157.8 million, the purchase of property, plant and equipment that amounted to RMB26.2 million, an increase in restricted bank deposits of RMB19.8 million and the prepaid lease payments of RMB15.1 million.

In 2007, our net cash used in investing activities was RMB258.3 million. The primary factors affecting net cash used in investing activities in 2007 included: the acquisition of equity interests in certain project companies, including the project companies for our Town on the Water (雲海閣) project in Yixing, Yingcheng Lake (營城湖) project in Tianjin and Chengdu Mont Conquerant (成都郡山) in Chengdu, that amounted to RMB371.4 million, the acquisition of additional interests in our subsidiaries that amounted to RMB75.8 million and an increase in investment properties of RMB27.4 million, partially offset by a decrease in amounts due from associates of RMB192.0 million, a decrease in restricted bank deposits of RMB15.0 million and proceeds from disposal of associates that amounted to RMB11.6 million.

Cash Flows from Financing Activities

In 2009, our net cash from financing activities was RMB4,243.7 million (US\$621.7 million). The primary factors affecting net cash from financing activities during the period included: an increase in borrowings of RMB3,485.3 million (US\$510.6 million), proceeds from issue of shares of RMB2,360.2 million (US\$345.8 million), partially offset by repayment of borrowings of RMB772.0 million (US\$113.1 million), repayment of loans from shareholders of RMB682.7 million (US\$100.0 million) and the share issue expenses of RMB109.4 million (US\$16.0 million).

In 2008, our net cash from financing activities was RMB491.7 million. The primary factors affecting net cash from investing activities in 2008 included: an increase in borrowings of RMB800.0 million, advances from related parties of RMB98.6 million and advance from directors of RMB35.0 million, which was partially offset by repayment of borrowings of RMB440.9 million.

In 2007, our net cash from financing activities was RMB1,290.2 million. The primary factors affecting net cash from investing activities in 2007 included: loans from shareholders of RMB735.7 million, proceeds from issuance of Shares of RMB734.9 million and an increase in borrowings of RMB447.5 million, which was partially offset by a repayment of borrowings of RMB365.4 million, a repayment to related parties of RMB151.7 million, a distribution to shareholders of RMB79.4 million and a repayment to directors of RMB66.4 million.

Capital Resources

Property developments require substantial capital investment for land acquisition and construction and may take months or years before positive cash flow can be generated. We principally fund our property developments from internal funds, borrowings from banks, proceeds from sales and pre-sales of our properties, capital contributions from shareholders and proceeds from issuance of equity securities, such as our IPO in November 2009. Our financing methods may vary from project to project and are subject to limitations imposed by PRC regulations and monetary policies.

Bank Balances and Cash

Our bank balances and cash amounted to RMB1,320.7 million in 2007, RMB303.0 million in 2008 and RMB3,696.5 million (US\$541.5 million) in 2009. Our bank balances and cash increased by RMB3,393.5 million (US\$497.2 million), or 1,120.0%, to RMB3,696.5 million (US\$541.5 million) in 2009, from RMB303.0 million in 2008, primarily due to increased cash inflow from financing activities. Our bank balances and cash decreased by RMB1,017.7 million, or 77.1%, from RMB1,320.7 million in 2007 to RMB303.0 million in 2008, principally due to increased cash inflow from our Pre-IPO investment in 2007 and increased cash outflow in operating activities resulting from our development of an increasing number of properties for sale in 2008.

Borrowings

Our borrowings primarily consist of loans from commercial banks and other financial institutions. As of December 31, 2009, we had an aggregate bank borrowings of RMB3,440.1 million (US\$504.0 million), of which substantially all was denominated in RMB and approximately RMB682.8 million (US\$100 million) was denominated in U.S. dollars. Substantially all of our borrowings are secured by land use rights and properties of the Group.

Our borrowings have a range of maturities from less than one year to more than five years. As of December 31, 2009, the weighted average effective interest rate for our fixed rate borrowings was 5.36% per annum and the weighted average effective interest rate for our variable rate borrowings was 4.57% per annum.

The following table sets forth the level of our borrowings and their respective maturity profiles as of the dates indicated.

	As of December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	US\$
	(in thousands)			
Bank loans	367,873	726,800	2,994,070	438,634
Other loans	—	—	446,000	65,339
	<u>367,873</u>	<u>726,800</u>	<u>3,440,070</u>	<u>503,973</u>
Secured	277,873	460,550	3,044,070	445,959
Unsecured	90,000	266,250	396,000	58,014
	<u>367,873</u>	<u>726,800</u>	<u>3,440,070</u>	<u>503,973</u>
The amount is repayable as follows:				
Within one year	317,943	373,050	1,266,320	185,517
More than one year, but not exceeding two years	286	37,000	1,422,000	208,324
More than two years, but not exceeding five years	45,074	279,750	726,750	106,469
More than five years	4,570	37,000	25,000	3,663
	<u>367,873</u>	<u>726,800</u>	<u>3,440,070</u>	<u>503,973</u>
Less: Amounts due within one year shown under current liabilities	317,943	373,050	1,266,320	185,517
Total	<u><u>49,930</u></u>	<u><u>353,750</u></u>	<u><u>2,173,750</u></u>	<u><u>318,456</u></u>

Subsequent to December 31, 2009, we have, from time to time, in the ordinary course of business, entered into additional loan agreements to finance our property developments or for general corporate purposes. As of March 31, 2010, our total outstanding loans were RMB3,894.3 million (US\$570.5 million). A substantial portion of these loans were secured by land use rights and properties as well as guaranteed by certain of our PRC subsidiaries.

In April 2010, our wholly owned subsidiary, Fantasia Investment Holding Company Limited, entered into a loan agreement with The Hongkong and Shanghai Banking Corporation Limited for a loan of HK\$165 million (US\$21.3 million) and a revolving credit facility of up to HK\$85 million (US\$11.0 million) for working capital purposes. Both facilities carry an interest rate of Hong Kong inter-bank offered rate plus 2% per annum and are subject to reviews by the bank at any time and in any event a review by April 1, 2011 and subject to the bank's overriding right of repayment on demand. These facilities are secured by a limited guarantee of up to HK\$250 million by Fantasia Holdings Group Co., Limited and a cash deposit in RMB or other currency in an amount equivalent to Fantasia Investment Holdings Company Limited's outstanding loan balance in its bank accounts at HSBC Bank (China) Company Limited. In addition, Fantasia Group Holdings Co., Ltd. is required to maintain a consolidated net external gearing (i.e., ratio of total interest bearing debt to consolidated tangible net worth plus non-redeemable preference shares and minority interest) of not more than 0.9 and a consolidated tangible net worth of not less than RMB3,000 million at all times and to advise the bank of any major changes in shareholdings from HSBC NF China Investors Ltd. or its subsidiaries.

Commitments

As of December 31, 2009, our contractual obligations in connection with our property development activities, other than loans and borrowings, amounted to RMB1,060.4 million (US\$155.4 million), primarily arising from contracted construction fees or other capital commitments for future property developments. The following table sets forth our contractual obligations, other than loans and borrowings, as of the dates indicated:

	As of December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	US\$
	(in thousands)			
Operating lease commitments:				
Within one year	7,422	5,785	5,119	750
In the second to the fifth year inclusive	7,703	15,952	16,473	2,413
After the fifth year	–	18,537	16,531	2,422
Total operating lease commitments	<u>15,125</u>	<u>40,274</u>	<u>38,123</u>	<u>5,585</u>

	As of December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	US\$
	(in thousands)			
Other commitments contracted but not provided for:				
Construction commitments contracted for but not provided in the Financial Information	412,696	1,012,435	1,060,410	155,351
Capital commitments in respect of the acquisition of a subsidiary contracted for but not provided in the Financial Information	<u>6,000</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total other commitments	<u>418,696</u>	<u>1,012,435</u>	<u>1,060,410</u>	<u>155,351</u>

Contingent Liabilities

As of December 31, 2009, we provided guarantees to PRC banks for loans with an aggregate principal amount of RMB1,626 million (US\$238.2 million), in respect of mortgages provided by the banks to purchasers of the properties we developed and sold. Our guarantees are issued from the dates of grant of the relevant mortgages and released upon issuance of property ownership certificates or after the full repayment of the underlying mortgages by the purchasers.

Pursuant to the terms of the guarantees, if there is default of the mortgage payments by purchasers of the properties, we are responsible to repay the outstanding mortgage loans, together with accrued interests thereon and any penalty owed by the purchasers in default to banks. We are entitled to take over the legal title of the related properties.

Capital Expenditures

The following table sets forth a summary of our capital expenditures during the during the three years ended December 31, 2009:

	As of December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	US\$
	(in thousands)			
Purchase of property, plant and equipment . . .	11,262	26,192	55,768	8,170

Off-balance Sheet Commitments and Arrangements

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

Market Risks

We are exposed to various types of market risks, including changes in interest rate risks, foreign exchange risks and inflation risks in the normal course of business.

Commodities Risk

We are exposed to fluctuations in the prices of raw materials for our property developments, primarily steel and cement. We purchase most of our supplies of steel and cement at market prices. Such purchase costs are generally accounted for as part of contractors' fees pursuant to our arrangements with the relevant contractors. Rising prices for construction materials will therefore affect our construction costs in the form of increased fees payable to our contractors. As a result, fluctuations in the prices of our construction materials could have a significant impact on our results of operations.

Interest Rate Risk

Our business is sensitive to fluctuations in interest rates. Our indebtedness are typically fixed rate borrowings that are subject to negotiation in interest rate on an annual basis and any increase in interest rates will increase our finance costs. We currently do not hedge our interest rate risk but may do so in the future.

An increase in interest rates may 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 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, 2007, 2008 and 2009 were 7.47%, 5.31% and 5.31% respectively.

Foreign Exchange Rate Risk

We conduct our business exclusively in Renminbi. The value of Renminbi 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 Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against the U.S. dollar. Fluctuations in the value of Renminbi to the U.S. dollar may adversely affect our cash flows, revenue, earnings and financial position. For example, if the value of Renminbi appreciates, we would record foreign exchange losses on bank balances and other assets we maintain in non-Renminbi currencies. Pending application of the net proceeds of this offering, we may invest the net proceeds from this offering in Temporary Cash Investments in U.S. dollars before they are used in our PRC operations. See "Risk Factors — Risks Relating to the PRC — Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on your investment." We currently do not hedge our foreign exchange risk but may do so in the future.

Inflation

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the change in Consumer Price Index in China was 4.8%, 5.9% and -0.7% in 2007, 2008 and 2009, respectively.

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 either U.S. GAAP or HKFRS. 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 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 HKFRS and U.S. GAAP measure to EBITDA is profit for the year. We operate in a capital intensive industry. We use EBITDA in addition to profit for the year because profit for the year 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 under HKFRS to our definition of EBITDA for the years indicated.

	For the Year Ended December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	US\$
	(in thousands)			
Profit for the year	84,267	97,521	369,445	54,124
Adjustments:				
Gain on fair value changes of investment properties	(86,875)	(13,807)	(34,476)	(5,051)
Recognition of change in fair value of completed properties for sales upon transfer to investment properties	(2,170)	(302)	–	–
Impairment loss recognized in respect of goodwill	–	2,305	–	–
Finance cost – net	9,771	61,990	36,413	5,335
<i>Interest expenses</i>	12,167	69,941	51,800	7,589
<i>Interest income</i>	(2,396)	(7,951)	(15,387)	(2,254)
Income tax expense	82,552	156,550	407,050	59,633
Depreciation expenses	8,066	8,940	8,902	1,304
Amortisation expenses	989	149	1,202	176
EBITDA	96,600	313,346	788,536	115,521

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the year or as an indicator of operating performance or any other standard measure under HKFRS or U.S. GAAP. 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.

INDUSTRY OVERVIEW

The information in the section below has been derived, in part, from official government sources unless otherwise indicated. This information has not been independently verified by us or the Initial Purchasers or any of our or their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.

The Economy of China

Overview

The economy of China has grown significantly since the PRC government introduced economic reforms in the late 1970's. China's accession to the WTO in 2001 has further accelerated the reform of the PRC economy. China's nominal GDP has increased from approximately RMB13,582.3 billion in 2003 to approximately RMB30,067.0 billion in 2008 at a CAGR of approximately 17.2%. In 2009, China's nominal GDP further increased to approximately RMB33,535.3 billion.

The Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region are four of the most economically prosperous and vibrant regions in China. The table below sets forth the GDP data for China and the aforementioned four regions for the years indicated:

	Nominal GDP (in RMB billions)						CAGR
	2003	2004	2005	2006	2007	2008	2003 to 2008
PRC	13,582.3	15,987.8	18,308.5	21,087.1	24,661.9	30,067.0	17.2%
Chengdu-Chongqing Economic Zone	397.8	472.4	544.1	624.2	743.6	899.8	17.7%
Pearl River Delta region	1,295.7	1,548.5	1,824.5	2,160.9	2,560.7	2,974.6	18.1%
Yangtze River Delta region	2,884.2	3,472.5	4,090.8	4,775.4	5,671.0	6,394.0	17.3%
Beijing-Tianjin metropolitan region	741.1	899.2	1,055.0	1,220.8	1,402.4	1,684.2	17.8%

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities

The table below sets forth the per capita disposable annual income for urban households for China and the aforementioned four regions for the years indicated. In 2009, China's per capita disposable income of urban households have increased to approximately RMB17,175.0, an 8.8% increase compared to 2008.

	Per capita disposable income of urban households (in RMB)					
	2003	2004	2005	2006	2007	2008
PRC	8,472	9,422	10,493	11,760	13,786	15,781
Chengdu-Chongqing Economic Zone	8,514	9,544	10,555	11,914	14,065	16,090
Pearl River Delta region	15,333 ⁽¹⁾	17,886	19,372	21,330	23,245	23,496
Yangtze River Delta region	11,286	12,640	14,489	16,369	18,764	21,119
Beijing-Tianjin metropolitan region	12,420	14,034	15,627	17,673	19,704	22,553

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities

Note:

(1) Exclude data for Jiangmen in Guangdong province

Importance of Small- and Medium-Enterprises in the Economy of China

Small and medium enterprises² are important pillars in the PRC economy. According to the industry report prepared by China Real Estate Top 10 Research Team, the number of employees in small- and medium-enterprises represents over 77% of the total employees of “above-scale enterprises”³, revenues from small- and medium-enterprises represent over 62% of the total revenues of above-scale enterprises; and gross output value of small- and medium-enterprises represents over 63% of such value of above-scale enterprises.

The Property Market In China

Overview

We believe the economic growth of China, the increase in disposable income, the emergence of the mortgage lending market and the increase in the urbanization rate, are key factors in sustaining the growth of China’s property market. Government housing reforms continue to encourage private ownership and it is expected that an increasing proportion of urban residents who will own private properties will continue to increase over the coming years in the near future. The table below sets forth selected figures showing China’s urbanization rate and the increase in disposable income levels of the urban population in China for the periods indicated:

	2003	2004	2005	2006	2007	2008	2009
Urban population (in millions)	523.8	542.8	562.1	577.1	593.8	606.7	621.9
Total population (in millions)	1,292.3	1,299.9	1,307.6	1,314.5	1,321.3	1,328.0	1,334.7
Urbanization rate (%)	40.5%	41.8%	43.0%	43.9%	44.9%	45.7%	46.6%
Annual disposable income of urban households (in RMB millions)	4,437.6	5,114.3	5,898.1	6,786.1	8,186.1	9,574.3	10,681.1

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities

Pearl River Delta region is the earliest area in China that has experienced real estate marketization. As China’s economy continues to develop and mature, there was an increasing shift in real estate activities from the southern part of China to the north. As a result, the Yangtze River Delta region and Beijing-Tianjin metropolitan region has joined the Pearl River Delta region to form three of the most prosperous zones in China. Due to various factors that include varying regional economic development level, city development characteristics and maturity of the different real estate markets, the property markets in the PRC possesses distinct regional differences. However, major cities in the three traditional economic zones of the Yangtze River Delta region, the Pearl River Delta region and the Beijing-Tianjin metropolitan region are still recognized as leading cities in the real estate market in China. The historical and recent development and trend in the real estate market in China has also shown an increase of activities from the eastern part of China to the west and from the coastal regions to the inland regions. Such trend, along with the implementation of the Western Development Policy by the PRC government to promote the development of China’s western region, the Chengdu-Chongqing Economic Zone has in recent years gradually attracted significant investment and has become the business hub of western China.

2. According to the Notice on Issuance of Interim Provisions of Standards for Small- and Medium-Enterprises (關於印發中小企業標準暫行規定的通知) issued by the State Economic and Trade Commission, State Development Planning Commission (now known as NDRC), MOF and National Bureau of Statistics of China, small- and medium-enterprises are defined based on the number of employees, revenues and the total asset value of such enterprises.

3. According to the section entitled “Description” in 2005 Statistic Yearbook of Small and Medium Enterprises, 2006 Statistic Yearbook of Small and Medium Enterprises, and 2007 Statistic Yearbook of Small and Medium Enterprises, “above-scale enterprises” refer to all of the state-owned enterprises and the non-state-owned enterprises with annual revenue of over RMB5.0 million.

The table below sets forth the property development investment for China and the aforementioned four regions for the years indicated. China's property development investment has increased from approximately RMB1,590.9 billion in 2005 to approximately RMB3,623.2 billion in 2009 at a CAGR of approximately 22.8%.

Property Development Investment

	2003	2004	2005	2006	2007	2008	2005-2008 CAGR
	(in RMB billions)						
PRC	1,015.4	1,315.8	1,590.9	1,942.2	2,528.0	3,058.0	24.3%
Chengdu-Chongqing Economic Zone	57.3	68.5	96.8	124.9	176.0	190.4	25.3%
Pearl River Delta region . .	72.6	126.7	137.8	165.7	223.2	265.2	24.4%
Yangtze River Delta region	269.1	374.0	424.8	475.7	564.5	643.1	14.8%
Beijing-Tianjin metropolitan region	141.4	173.7	185.3	212.2	250.1	256.2	11.4%

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities

Property Price and Supply

The average price per square meter for the property market in China was approximately RMB3,877 in 2008, compared to approximately RMB2,379 in 2003. Supply of properties in China also increased from approximately 395.1 million square meters in 2003 to approximately 585.0 million square meters in 2008.

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

	2003	2004	2005	2006	2007	2008
Total GFA completed (in million square meters)	395.1	424.6	487.9	530.2	582.4	585.0
Total GFA sold (in million square meters)	337.2	382.3	557.7	606.3	761.9	620.9
GFA of residential properties sold (in million square meters)	285.0	338.2	497.9	543.9	691.0	558.9
GFA of office buildings sold (in million square meters)	6.0	6.9	11.1	12.1	14.5	11.1
Average price of properties (in RMB per square meter)	2,379	2,714	2,997	3,383	3,885	3,877
Average price of residential properties (in RMB per square meter)	2,212	2,549	3,010	3,132	3,665	3,655
Average price of office buildings (in RMB per square meter) . . .	4,293	5,533	6,995	8,155	8,701	8,595

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities

The Property Market in the Chengdu-Chongqing Economic Zone

The Chengdu-Chongqing Economic Zone centers around the cities of Chengdu and Chongqing and occupies an area of approximately 155,000 square meters. The region has a GDP of approximately RMB110.3 billion in 2009 and has a population of over 40 million. The Chinese government plans to construct various water conservancy facilities and energy supply system in the Chengdu-Chongqing Economic Zone and also plans to develop the region into a comprehensive transportation hub and logistics center. The Chengdu-Chongqing Economic Zone is an important base for China's advanced equipment manufacturing industry, modern service industry, high-tech industry and agriculture industry. The region is also a national pilot area for the co-ordination of urban and rural comprehensive reform and was classified as a national protected ecological security zone. The Chengdu-Chongqing Economic Zone serves as the primary success model as to western China's development potential.

Sale of properties in the Chengdu-Chongqing Economic Zone has experienced an upward trend in recent years. The total GFA of properties sold in the Chengdu-Chongqing Economic Zone increased from approximately 22.8 million square meters in 2003 to approximately 66.9 million square meters in 2009, representing a CAGR of approximately 19.7%. The table below sets forth selected data relating to the property market in the Chengdu-Chongqing Economic Zone for the years indicated:

	2003	2004	2005	2006	2007	2008	2009
Total GFA sold (in million square meters)	22.8	20.7	21.2	37.7	58.0	41.5	66.9
Total sales revenue (in RMB billions)	41.3	41.8	47.0	105.6	192.4	142.7	270.7
Average price of properties (in RMB per square meter)	1,806	2,017	2,220	2,800	3,320	3,441	4189.5
Investment in properties (in RMB billions)	57.3	68.5	96.8	124.9	176.0	190.4	218.4

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities

Chengdu

Chengdu is the capital city of Sichuan Province and is located at the western edge of the Sichuan Basin, with an area of approximately 12,390 square kilometers. In 2007, the central government of the PRC designated Chengdu as a National Experimental Zone of Comprehensive Coordinated Reforms for Balanced Urban and Rural Development in recognition of Chengdu's comprehensive strength and development potential in western China. It had a population of approximately 12.7 million in 2008. Chengdu has experienced significant GDP growth rate in recent years from approximately RMB170.5 billion in 2003 to approximately RMB390.1 billion in 2008, representing a CAGR of approximately 18.0%, exceeding the CAGR of national GDP of approximately 17.2% over the same period. In 2009, Chengdu's GDP reached approximately RMB450.3 billion.

In line with the rapid economic growth of Chengdu, the volume of sales of local properties has experienced an upward trend in recent years. According to the Chengdu Bureau of Statistics, the total GFA of properties sold in Chengdu increased from approximately 9.7 million square meters in 2003 to approximately 26.9 million square meters in 2009, representing a CAGR of approximately 18.6%. The average price of properties in Chengdu increased from approximately RMB2,096 per square meter in 2003 to approximately RMB4,935 per square meter in 2009, representing a CAGR of approximately 15.3%. Investment in properties in Chengdu in 2009 continued to show steady increase

to approximately RMB94.5 billion. The table below sets forth data relating to the property market in Chengdu for the periods indicated:

	2003	2004	2005	2006	2007	2008
Total GFA of sold (in million square meters)	9.7	7.6	5.6	15.3	22.4	12.7
Total sales revenue (in RMB billions)	20.3	18.6	15.8	55.1	95.7	62.7
Average price of properties (in RMB per square meter) . . .	2,096	2,452	2,818	3,592	4,267	4,921
Investment in properties (in RMB billions)	24.5	29.1	45.1	61.9	91.0	91.3
Total GFA of office buildings sold (in thousand square meters)	63.0	87.0	164.2	166.0	367.9	244.9
Total sales revenue from office buildings (in RMB billions) . .	0.21	0.37	0.86	0.76	2.14	1.41
Average price of office buildings (in RMB per square meter) . . .	3,381	4,279	5,964	4,578	5,828	5,745
Investment in office buildings (in RMB billions)	0.83	0.99	1.46	1.52	1.85	1.75

Sources: National Bureau of Statistics of China, Chengdu Bureau of Statistics

The Property Market in the Pearl River Delta Region

The Pearl River Delta region is one of the leading economic regions and a major manufacturing center of China. It covers nine prefectures of the province of Guangdong, namely Guangzhou, Shenzhen, Zhuhai, Dongguan, Zhongshan, Foshan, Huizhou, Jiangmen and Zhaoqing, and is adjacent to Hong Kong and Macau. It had a population of approximately 40 million in 2008 and occupies an area of approximately 41,500 square meters. The Chinese government aims to make the Pearl River Delta region a shipping, logistics, trade, exhibition, tourism and innovation center for mutual development with Hong Kong and Macau, and position the region as a pioneer for carrying out various reforms and a key economic center of China.

Sale of properties in the Pearl River Delta region has experienced an upward trend in recent years. The total GFA of properties sold in the Pearl River Delta region increased from approximately 26.8 million square meters in 2003 to approximately 37.7 million square meters in 2008, representing a CAGR of approximately 7.1%. The table below sets forth selected data relating to the property market in the Pearl River Delta region for the years indicated:

	2003	2004	2005	2006	2007	2008
Total GFA of sold (in million square meters)	26.8	25.0	34.1	42.2	50.0	37.7
Total sales revenue (in RMB billions)	115.5	99.1	169.8	232.5	337.8	262.3
Average price of properties (in RMB per square meter) . . .	4,314	3,958	4,985	5,505	6,756	6,967
Investment in properties (in RMB billions)	72.6	126.7	137.8	165.7	223.2	265.2

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities

Shenzhen

Shenzhen is located in the southern part of Guangdong Province and borders Hong Kong with an area of approximately 1,953 square kilometers. It had a population of approximately 8.8 million in 2008. Shenzhen has experienced GDP growth in recent years from approximately RMB358.6 billion in 2003 to approximately RMB780.7 billion in 2008, representing a CAGR of approximately 16.8%. Shenzhen's GDP has ranked fourth in all cities in China from 2001 to 2006. Furthermore, in 2007, Shenzhen became the first and only city in China with a per capita GDP of over US\$10,000 according to various news reports.

In line with the economic growth of Shenzhen, property price has increased significantly in recent years. According to the Shenzhen Bureau of Statistics, the average price of properties increased from approximately RMB6,255 per square meters in 2003 to RMB12,665 per square meters in 2008, representing a CAGR of approximately 15.2%. The table below sets forth data relating to the property market in Shenzhen for the periods indicated:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total GFA of sold (in million square meters)	4.1	3.8	11.2	7.6	5.6	4.7
Total sales revenue (in RMB billions)	25.8	25.8	85.1	71.0	78.0	59.1
Average price of properties (in RMB per square meter) . . .	6,255	6,756	7,582	9,384	14,050	12,665
Investment in properties (in RMB billions)	41.0	43.2	42.4	46.1	46.1	44.0

Sources: *National Bureau of Statistics of China, Shenzhen Bureau of Statistics*

Dongguan

Dongguan is a prefecture-level city located in central Guangdong province. It is an important industrial city located in the Pearl River Delta region and borders the provincial capital of Guangzhou with an area of approximately 2,465 square kilometers. It had a population of approximately 6.9 million in 2008. Dongguan has experienced significant GDP growth in recent years from approximately RMB145.3 billion in 2003 to approximately RMB370.3 billion in 2008, representing a CAGR of approximately 20.6% and exceeding the CAGR of national GDP of approximately 17.2% over the same period. In 2009, Dongguan continue to experience steady growth in GDP, reaching approximately RMB376.3 billion.

In line with the economic growth of Dongguan, the volume of sales of local properties has experienced an upward trend in recent years. According to the Dongguan Bureau of Statistics, the total GFA of properties sold in Dongguan increased from approximately 1.6 million square meters in 2003 to approximately 6.0 million square meters in 2009, representing a CAGR of approximately 24.8%. The table below sets forth data relating to the property market in Dongguan for the years indicated:

	2003	2004	2005	2006	2007	2008	2009
Total GFA of sold (in million square meters) . . .	1.6	2.6	3.2	3.8	5.7	5.1	6.0
Total sales revenue (in RMB billions)	5.4	8.5	11.9	15.9	29.5	28.4	35.3
Average price of properties (in RMB per square meter)	3,288	3,336	3,710	4,187	5,148	5,567	5,846
Investment in properties (in RMB billions)	5.5	11.4	14.4	16.4	20.9	27.0	27.8

Sources: National Bureau of Statistics of China, Dongguan Bureau of Statistics

Huizhou

Huizhou is a prefecture-level city located in the south-eastern part of Guangdong Province with an area of approximately 11,200 square kilometers. It had a population of approximately 3.9 million in 2008. Huizhou has experienced GDP growth rate in recent years from approximately RMB58.7 billion in 2003 to approximately RMB129.0 billion in 2008, representing a CAGR of approximately 17.1%.

In line with the economic growth of Huizhou, the volume of sales of local properties has experienced an upward trend in recent years. According to the Huizhou Bureau of Statistics, the total GFA of properties sold in Huizhou increased from approximately 0.7 million square meters in 2003 to approximately 3.0 million square meters in 2008, representing a CAGR of approximately 32.4%. The table below sets forth data relating to the property market in Huizhou for the years indicated:

	2003	2004	2005	2006	2007	2008
Total GFA of sold (in million square meters)	0.7	1.0	1.4	2.3	3.9	3.0
Total sales revenue (in RMB billions)	1.6	2.3	3.6	6.7	15.6	12.2
Average price of properties (in RMB per square meter)	2,143	2,263	2,597	2,942	3,998	4,120
Investment in properties (in RMB billions)	2.3	3.0	4.4	6.8	13.8	18.7

Sources: National Bureau of Statistics of China, Huizhou Bureau of Statistics

The Property Market in the Yangtze River Delta Region

The Yangtze River Delta region has one of the strongest regional economies in China. It includes two provinces, Jiangsu and Zhejiang, and one city, Shanghai. Its land area accounts for approximately 1.0% of China's total land area while its population accounts for approximately 11.1% of China's total population and its GDP accounts for approximately 21.3% of China's total GDP. The Chinese government has positioned the Yangtze River Delta region as China's strongest economic, financial, trading and shipping centers.

Sale of properties in the Yangtze River Delta region has experienced an upward trend in recent years. The total GFA of properties sold in the Yangtze River Delta region increased from approximately 52.8 million square meters in 2003 to approximately 105.9 million square meters in 2008, representing a CAGR of approximately 14.9%. The table below sets forth selected data relating to the property market in the Yangtze River Delta Region for the years indicated:

	2003	2004	2005	2006	2007	2008
Total GFA of sold (in million square meters)	52.8	92.7	116.0	126.7	158.4	105.9
Total sales revenue (in RMB billions)	187.0	364.4	530.1	606.1	877.5	598.1
Average price of properties (in RMB per square meter) . . .	3,539	3,929	4,570	4,783	5,542	5,649
Investment in properties (in RMB billions)	269.1	374.0	424.8	475.7	564.5	643.1

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities

Yixing

Yixing is a county-level city in Wuxi, Jiangsu Province, with an area of approximately 2,177 square kilometers. It had a population of approximately 1.3 million as of December 31, 2008. Yixing has experienced significant GDP growth in recent years from approximately RMB25.4 billion in 2003 to approximately RMB60.0 billion in 2008, representing a CAGR of approximately 18.8% and exceeding the CAGR of national GDP of approximately 17.2% over the same period. In 2009, Yixing continue to experience steady growth in GDP, reaching approximately RMB68.1 billion.

In line with the economic growth of Yixing, the volume of sales of local properties has experienced an upward trend in recent years. According to the Yixing Bureau of Statistics, the total GFA of properties sold in Yixing increased from approximately 0.6 million square meters in 2003 to approximately 1.1 million square meters in 2009, representing a CAGR of approximately 10.8%. The table below sets forth data relating to the property market in Yixing for the periods indicated:

	2003	2004	2005	2006	2007	2008	2009
Total GFA of sold (in million square meters)	0.6	0.7	0.9	1.3	1.6	0.7	1.1
Total sales revenue (in RMB billions)	0.9	1.4	2.0	3.8	5.1	2.3	6.1
Average price of properties (in RMB per square meter)	n/a ⁽¹⁾	1,855	2,207	2,919	3,417	3,226	5,500
Investment in properties (in RMB billions)	1.3	2.0	2.4	3.4	3.6	3.8	3.6

Sources: National Bureau of Statistics of China, Yixing Bureau of Statistics

Note:

(1) Data not available

The Property Market in the Beijing-Tianjin Metropolitan Region

Beijing-Tianjin metropolitan region centers around two cities, Beijing and Tianjin, which are the most economically vibrant cities in northern China. In 2009, the region has a GDP of RMB1,936.6 billion and accounts for approximately 5.8% of China's total GDP.

Sale of properties in the Beijing-Tianjin metropolitan region has experienced an upward trend in recent years. The average price of properties increased from approximately RMB4,102 per square meter in 2003 to approximately RMB9,320 per square meter in 2008, representing a CAGR of approximately 17.8%. The table below sets forth selected data relating to the property market in the Beijing-Tianjin metropolitan region for the years indicated:

	2003	2004	2005	2006	2007	2008
Total GFA of sold (in million square meters)	26.8	33.2	45.3	40.7	37.3	25.9
Total sales revenue (in RMB billions)	110.0	151.3	269.1	285.5	341.4	241.1
Average price of properties (in RMB per square meter)	4,102	4,558	5,939	7,022	9,156	9,320
Investment in properties (in RMB billions)	141.4	173.7	185.3	212.2	250.1	256.2

Sources: National Bureau of Statistics of China, Bureau of Statistics of respective cities

Tianjin

Tianjin is one of the four municipalities of China that are directly under the central government and have provincial-level status, with an area of approximately 11,920 square kilometers. It had a population of approximately 11.8 million as of December 31, 2008. The city's urban area is located along the Haihe River and its ports are located on Bohai Gulf in the Pacific Ocean. Tianjin has experienced significant GDP growth in recent years from approximately RMB238.7 billion in 2003 to approximately RMB635.4 billion in 2008, representing a CAGR of approximately 21.6% and exceeding the CAGR of national GDP of approximately 17.2% over the same period. In 2009, Tianjin continues to experience significant growth in GDP, reaching approximately RMB750.0 billion.

In line with the economic growth of Tianjin, the volume of sales of local properties has experienced an upward trend in recent years. According to the Tianjin Bureau of Statistics, the total GFA of properties sold in Tianjin increased from approximately 7.9 million square meters in 2003 to approximately 15.9 million square meters in 2009, representing a CAGR of approximately 12.4%. The average price of properties in Tianjin increased from approximately RMB2,572 per square meter in 2003 to approximately RMB6,886 per square meter in 2009, representing a CAGR of approximately 17.8%. Investment in

properties in Tianjin in 2009 continued to show steady increase to approximately RMB73.5 billion. The table below sets forth selected data relating to the property market in Tianjin for the years indicated:

	2003	2004	2005	2006	2007	2008
Total GFA of sold (in million square meters)	7.9	8.5	14.1	14.6	15.5	12.5
Total sales revenue (in RMB billions)	20.2	26.4	57.1	69.6	89.9	75.3
Average price of properties (in RMB per square meters)	2,572	3,115	4,055	4,774	5,794	6,015
Investment in properties (in RMB billions)	21.1	26.4	32.8	40.2	50.5	65.4
Total GFA of office buildings sold (in thousand square meters)	157.0	169.0	434.7	371.0	429.5	293.0
Total sales revenue from office buildings (in RMB billions)	0.89	0.94	2.18	2.29	3.18	2.87
Average price of office buildings (in RMB per square meter)	5,663	5,551	4,976	6,171	7,411	9,783
Investment in office buildings (in RMB billions)	0.76	1.58	1.20	2.37	3.46	3.10

Sources: National Bureau of Statistics of China, Tianjin Bureau of Statistics

The Property Agency Services Industry In China

As a result of the real estate market growth in China, the property agency services industry in China has experienced significant growth as well in recent years. However, the property consulting and advisory services market in China is at an early stage of development. Sales, marketing and other commercial data relating to transferable land use rights or development projects are scattered among various governmental agencies and private parties with varying degrees of transparency. Top property agency services companies who can provide services that encompass the entire project development, marketing and sales process have a visible competitive advantage, as competition for these projects is based primarily on a property agency services company's market research capability and its ability to provide a full range of services. As a result, we believe there is a strong market demand for professional property agency services companies that can provide consolidated information and analysis of unprocessed real estate market data covering a broad range of geographic markets in China.

The Property Management Industry In China

Against the backdrop of the development of the underlying property market and the improvement in living standards as a result of rapid economic growth, there has been a growing demand for property management services in China in recent years. However, the industry remains at an early stage of development, characterized by an industry structure that is highly fragmented with a large number of relatively small participants operating in a competitive environment. According to the Survey Report on Property Management Industry (物業管理行業生存狀況調查報告) issued by the China Property Management Association (中國物業管理協會) in May 2008, of the 4,600 property management companies in China that participated in the survey, approximately 5.8% were established between 1981 to 1994, approximately 76.0% were established between 1994 to 2004, and approximately 18.2% were established between 2004 to 2007.

Our directors are optimistic that, while competition is intense, the long-term growth prospects for the property management industry in China are promising as the underlying property market continues to develop along with China's economic growth. Our directors also expect that, as the industry continues to develop, there will be a growing demand for quality and reliable services from property management companies with industry consolidation that eliminates small and inefficient companies and allowing companies with sufficient resources operating on economies of scale to eventually emerge as market leaders.

The Hotel Services Industry In China

The growth of the PRC economy and its tourism industry has led to a rapid development of the hotel industry in China in recent years. According to the National Bureau of Statistics of China and the National Tourism Administration of China (中國國家旅遊局), total tourism volume grew from 962 million visits in 2003 to 1,742 million visits in 2007 with a CAGR of 16.0% and total tourism revenue in China grew from RMB485 billion in 2003 to RMB1,084 billion in 2007 with a CAGR of 22.3%. As a result of the desire to benefit from an increasingly affluent domestic population as well as the influx of visitors, many foreign corporate and hotel investors, developers and operators have entered into the hotel industry in China with a hope of securing a presence in the industry. In addition, China's entry into the WTO in 2002, Beijing's successful organization of the 2008 Olympic games and Shanghai's successful bid to hold the World Expo in 2010, have served to illustrate China's importance in the world stage, have thereby furthering the strong interest and growth of the hotel industry in China, especially in major cities.

BUSINESS

Overview

We are a leading property developer and property related service provider in China. We are the only property company in China with members of our Group being ranked among the 2009 China Top 100 Real Estate Developers (2009中國房地產百強企業), the 2009 China Top 100 Real Estate Agencies (2009中國房地產策劃代理百強企業) and the 2009 China Top 100 Property Management Companies (2009中國物業服務百強企業) by the China Real Estate Top 10 Research Team. In 2010, we were also ranked among the 2010 China Top 100 Real Estate Developers (2010中國房地產百強企業) and the 2010 China Top 100 Real Estate Agencies (2010中國物業服務百強企業). We first commenced our property development business in Shenzhen in 1996. Leveraging on our broad experience and capabilities, we have successfully expanded into, and currently focus our real estate activities in, four of the fastest-growing economic regions in China, including the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region.

Our target customers are affluent middle- to upper-class individuals and families and fast growing small- to medium-sized enterprises. We envisage that the demand for properties designed for these customers will increase as such customers' household income and purchasing power continue to rise. To cater to the diverse needs of our target customers, we develop a portfolio of property development projects with a focus on the following:

- *Urban Complexes*

Our urban complexes are mostly located in the peripheral areas of existing central business districts in major cities such as Shenzhen and Chengdu or in the emerging new business districts designated under city development plans of local governments. These complexes integrate various types of properties, such as offices, apartments, retail shops and/or boutique hotels, into a single property development project. For example, our urban complex Chengdu Hailun Plaza (成都喜年廣場), which has received several awards, became the tallest building and a local landmark in Chengdu when completed in December 2009, and we believe our Meinian International Plaza (美年國際廣場) is one of the largest urban complexes currently under development in Chengdu.

- *Boutique Upscale Residences*

Our boutique upscale residences are located in urban and suburban areas with natural scenic surroundings or cultural landmarks. They are connected by roads or expressways to the centers of major metropolitan areas. These boutique upscale residences include high- and low-rise apartment buildings, townhouses and stand-alone houses and cater to the residential and investment needs of our high-end consumers. We typically develop our boutique upscale residential projects in several phases so that we can manage our capital resources more efficiently and increase the average selling price as the project becomes more developed and attractive to our customers. Examples of such boutique upscale residential projects include Grand Valley (大溪谷), a large scale residential complex that is adjacent to a planned ecological and sports park in Pujiang County of Chengdu, and Chengdu Mont Conquerant (成都君山), a large scale residential community located in a famous tourist attraction in Xinjin County of Chengdu, Yixing Town on the Water (雲海間), adjacent to the Hengshan Reservoir which is the one of the six largest reservoirs in Jiangsu province, and Dongguan Mont Conquerant (東莞君山), adjacent to the Fengjing Golf Course.

As of March 31, 2010, our portfolio of land bank consisted of 58.9% of boutique upscale residences, 28.4% of urban complexes and 12.7% of other properties in terms of GFA. We plan to continue to focus our property development activities on developing a portfolio of products that caters to our target customers across four of China's most economically prosperous regions. We plan to achieve this objective by continuing to selectively acquire low-cost land in the four regions. We conduct comprehensive and in-depth market research and analysis on the land that we intend to acquire and the surrounding areas. We consider the geographic as well as marketing factors when evaluating a target parcel, including development potentials, size and suitability of the land for developments that can fit

into our existing portfolio, convenience and availability of infrastructure support, purchasing power of our potential customers in relevant areas, development costs and the estimated return on investment. We budget for the cost of land acquisition as well as the overall development costs, which are subject to strict internal procedures and are closely monitored and adjusted throughout the construction process. Acquisition proposal is reviewed and approved by the relevant personnel of our Group, including our chief executive officer and our board of directors. We usually acquire land using our own capital within a pre-set budget and arrange project loans with banks in China at a later stage to support the subsequent development of the property.

In addition to our property development business, we also provide property operation services, property agency services and hotel services to our own properties and properties of third parties. We believe such property related services enable us to strengthen our property development capabilities. For example, our property operation services enhance the value of our properties while our property agency services enable us to maximize our marketing and selling efforts. We plan to continue to enhance such real estate services that we offer and to further enhance the intrinsic synergies between our real estate products and services. We will in particular focus on enhancing our property operation services and hotel services which we believe will serve as relatively stable and growing revenue sources to our Group on the one hand, and will continue to increase the attractiveness and the average selling price of the properties developed by us on the other.

We have received numerous accolades for our property development and services capabilities. Our wholly-owned subsidiary, Fantasia Group (China) Co., Ltd., won the 2008 Corporate Citizen Award of Golden Brick for Real Estate of China (中國地產金磚獎2008年度中國地產企業公民大獎) presented by the Boao 21st Century Real Estate Forum (博鰲21世紀房地產論壇) and the 21st Century Economy Review (21世紀經濟報導). Our subsidiary, Fantasia (Chengdu) Development Co., Ltd., was awarded the Real Estate Corporate of the Year for the Golden Hibiscus Prize (2008金芙蓉杯成都地產年度企業金獎) in Chengdu in 2008 by Chengdu Real Estate Bureau (成都市房地產管理局) and Sichuan Daily Press Group (四川日報報業集團). Our property development projects have also won numerous awards and recognitions for their design and quality. For example, our project Shenzhen Future Plaza (深圳香年廣場) won the 2008 Real Estate Design Award of Golden Brick for Real Estate of China (中國地產金磚獎2008年度地產設計大獎) presented by the Boao 21st Century Real Estate Forum (博鰲21世紀房地產論壇) and the 21st Century Economy Review (21世紀經濟報導). Chengdu Hailrun Plaza (成都喜年廣場), our urban complex project which is under development, was recognized as the Star Property of the Year and the Driving Force of Real Estate Industry in Chengdu in 2008 (2008成都房地產推動力大獎年度明星樓盤) and won the Ginkgo Prize as the Office Building with the Greatest Industrial Momentum in Chengdu in 2008 (銀杏杯2008成都最具行業推動力寫字樓大獎) presented by Chengdu Media Group (成都傳媒集團) and Chengdu Television Station (成都電視臺), respectively. Self Life (趣園), our completed residential project in Shenzhen, was awarded the Golden Bull Prize in 2005 (2005年度金牛獎), one of the most prestigious awards in the real estate industry in Shenzhen, by the Shenzhen Construction Industry Association (深圳市建築業協會).

As of March 31, 2010, we had a total of 31 projects at various stages of development (i.e. completed projects, projects under development and projects held for future development), including 12 projects located in the Chengdu-Chongqing Economic Zone (including Dali Project), 14 projects located in the Pearl River Delta region, three projects located in the Yangtze River Delta region and two projects located in the Beijing-Tianjin metropolitan region. In addition, as of March 31, 2010, we had entered into preliminary framework agreements for four projects.

As of March 31, 2010, we had a total land bank of approximately 10,775,077 square meters, which consists of:

- an aggregate planned GFA of approximately 5,749,960 square meters of properties for which we had obtained land use rights (consisting of an aggregate planned GFA of approximately 1,373,146 square meters of properties under development and an aggregate planned GFA of approximately 4,376,814 square meters of properties held for future development for which we have obtained land use rights); and

- an aggregate planned GFA of approximately 5,025,117 square meters of properties for which we had entered into preliminary framework agreements but had not obtained the land use rights or property rights. The preliminary framework agreements are legally binding but, before we are able to obtain the relevant land use right certificates, we are still required by the relevant PRC laws and regulations (i) in respect of our Pixian and Yunnan Projects, to successfully complete the public tender, auction or listing-for-sale process, enter into a land grant contract and pay relevant land grant premium; (ii) in respect of our Beijing Tongzhou Project, to enter into and perform our obligations under a formal share transfer agreement and duly complete registration procedures for such transfer of equity ownership with the relevant government authorities; and (iii) in respect of our Suzhou Taihu Hotel Project, to invest at least 25% of the total capital required for the project or fulfill such other conditions as may be determined by the relevant government authorities of Suzhou and, where necessary, complete the required listing-for-sale and public notice procedures on the basis that project is currently a state-owned asset.

In April 2010, we entered into a framework agreement to purchase 100% equity interests in Shenzhen Gaohua Investment Limited, which holds certain parcels of land in Guilin City. Completion of such acquisition is conditional upon fulfillment of a number of conditions, including, among others, completion of necessary procedures for Shenzhen Gaohua Investment Limited to have legal ownership in each of the project companies holding the relevant parcels of land in Guilin City and the underlying land use rights and obtaining corporate and other approval for such acquisition.

Of our total land bank as of March 31, 2010, approximately 8,469,267 square meters, or 78.6%, were located in the Chengdu-Chongqing Economic Zone (including Yunnan Project and Dali Project); approximately 1,097,717 square meters, or 10.2%, were located in the Pearl River Delta region; approximately 853,413 square meters, or 7.9%, were located in the Yangtze River Delta region; and approximately 354,680 square meters, or 3.3%, were located in the Beijing-Tianjin metropolitan region. We develop most of our properties, including properties that are currently under development, for sale but will hold certain of these developed properties for investment.

For each of the years ended December 31, 2007, 2008 and 2009, our revenue was RMB772.1 million, RMB1,174.2 million and RMB2,458.7 million (US\$360.2 million), respectively. Our revenue for the three years ended December 31, 2009 consisted of revenue derived from (i) the sales of our developed properties, (ii) the lease of investment properties, (iii) the provision of property agency and related services, (iv) the provision of property operation and related services, (v) the provision of hotel management and related services, and (vi) other operations. The following table sets forth our revenue for each of the components described above and the percentage of total revenue represented for the periods indicated with the fluctuations of the percentage due primarily to the different product mix delivered to customers in respective period:

	For the Year Ended December 31,						
	2007		2008		2009		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Property development	619,168	80.2	1,064,604	90.7	2,322,037	340,180	94.4
Non-residential properties ⁽¹⁾	13,643	1.8	517,768	44.1	1,590,451	233,002	64.7
Residential properties	605,525	78.4	546,836	46.6	731,586	107,178	29.7
Property investment	10,649	1.4	11,029	0.9	10,806	1,583	0.4
Property agency services	97,151	12.6	40,224	3.5	57,775	8,464	2.3
Property operation services.	41,857	5.4	57,875	4.9	63,900	9,361	2.6
Hotel services.	–	–	479	0.0	4,155	609	0.3
Others	3,232	0.4	–	–	–	–	–
Total	<u>772,057</u>	<u>100.0</u>	<u>1,174,211</u>	<u>100.0</u>	<u>2,458,673</u>	<u>360,197</u>	<u>100.0</u>

Note:

(1) Comprised of commercial and industrial properties and certain car parking spaces.

Our Competitive Strengths

Property development portfolio strategically located across four of China's most economically prosperous regions

We focus our business activities across four of the most economically prosperous and vibrant regions in China, namely, the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region. Each of the four regions has experienced strong growth over the past few years. As of March 31, 2010, our planned GFA under development and held for future development in each of the Chengdu-Chongqing Economic Zone (including Dali Project), the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region was approximately 3,555,404 square meters, 1,097,717 square meters, 797,159 square meters and 299,680 square meters, respectively. We have already established a strong market position in certain of our targeted regions, such as in the Chengdu-Chongqing Economic Zone and the Pearl River Delta region, and several of our developments in those regions received various awards. As of December 31, 2007 and 2008 and March 31, 2010, we have completed a total of seven, ten and 15 projects with an aggregate GFA of approximately 405,193, 589,410 and 1,008,338 square meters, respectively, in Chengdu, and a total of six, eight and nine projects with an aggregate GFA of approximately 282,917, 384,298 and 471,936 square meters, respectively, in Shenzhen. We believe that a significant portion of our target customers operate and reside in these four regions, and our location and presence in these regions have enabled us to capture the growing demand of our target customers.

Ability to acquire land at low cost

For the year ended December 31, 2009, our average unit land cost based on GFA was approximately 9.5% of our average unit selling price. We focus on developing urban complexes in the peripheral areas of existing central business districts or emerging new business districts and boutique upscale residences in the urban and suburban areas. As a result, we have a wide range of choices when selecting land sites for our property developments than other property developers who focus on developing properties in existing central business districts or well-established residential areas in major cities. We believe our wide range of choices of land sites allows us to avoid intense competition in the land acquisition process and thereby reduces our average land acquisition costs. In addition, we believe our ability to acquire land at low cost is also attributable to our flexible property development capabilities that have enabled us to develop a wide variety of land and properties. We believe our operating flexibility as to the size and location of the land that we can develop enables us to take the opportunity presented to us to acquire land at low cost. We conduct research and analysis and try to identify the future growth potential of a land site for our property development before our competitors start doing the same so as to avoid price competition. Such approach to land selection and evaluation has also contributed to our ability to acquire land at relatively low cost. We believe our ability to acquire high quality land at relatively low cost allows us to use our working capital more efficiently, maintain a healthy profit margin and respond more effectively to changing market conditions.

Strong business model with track record of success

We have a strong property development capability to develop a wide range of properties in different regions. We target affluent middle- to upper- class individuals and families and fast-growing small- to medium-sized enterprises. We focus our development capabilities on urban complexes and boutique upscale residences to meet the demand of our target customers. We have replicated our success in various markets in China while continuing to quickly and effectively develop a diverse range of high-quality properties to satisfy the requirements of our target customers in various markets in China. For example, we have successfully developed Shenzhen Future Plaza (深圳香年廣場) in 2007, a multi-building complex that has received several awards, and were able to translate such success to the development of Chengdu Hailun Plaza (成都喜年廣場), an urban complex that became the tallest building in Chengdu when completed in December 2009. Our ability to develop such large scale complexes is also evidenced by the development of Meinian International Plaza (美年國際廣場), one of the largest urban complexes currently under development in Chengdu, and Tianjin Hailun Plaza (天津喜年廣場), an urban complex in Tianjin. Similarly, we were able to continue to develop boutique upscale residences in Chengdu such as Grand Valley (大溪谷) Project and other cities such as Chengdu Mont Conquerant (成都君山) in

Chengdu, Dongguan Mont Conquerant (東莞君山) in Dongguan and the Town on the Water (雲海間) in Yixing. We have also obtained land use rights for Suzhou Taihu Project (蘇州太湖項目), a portal project located in Suzhou Taihu National Tourism Vacation Zone, and plan to develop it into a large scale and low density residential community. We believe our capabilities to develop quality products provide us with significant leverage for our future business growth.

Well-known brand name

We believe we have established a strong brand name in the property market in China. We have focused our property development efforts on developing a portfolio of properties as well as provide real estate services that cater to the diverse needs of our targeted customers. We believe these efforts have allowed us to achieve a strong track record in the sale of our properties. We have also focused on developing properties with a distinctive design or with features that can help to raise our company profile. We have worked closely with leading domestic and international architecture and design firms to achieve such goal. As a result, we have received numerous accolades for our property development and service capabilities, as well as for the design of our properties, and have achieved a strong market position in certain of our targeted regions. We believe our customers associate our brand image with high-quality and customer-oriented real estate products and services, as well as the modern and trend-setting design of our properties.

We have also established an annual program named “Fantasia — Voyage to Happiness” (幸福之旅) (“Voyage to Happiness”). Voyage to Happiness is a large scale community art activity organized by the Company since 2006, which explores the meaning of “Happiness” within the contemporary Chinese society through artistic creation and exchanges of idea with the collaborating of a young artist each year. We believe such effort attaches an artistic and cultural image to our brand and our properties in the mind of our target customers, distinguishing us from our competitors.

Strong value-accretion property development and service capabilities

We believe that our urban complex developments help to foster increased property development activities by others and increased government investment in public infrastructure and services in surrounding neighborhoods and thus facilitate the formation of new urban centers, which in turn increases the value of our developments. We also provide real estate services that consist of property operation services and property agency services. We believe our property operation services enhance the value and attractiveness of our properties, thereby allowing us to increase average selling and rental prices. Our property agency services business allows us to better understand the market place so we can adjust our marketing and pricing strategies to achieve an optimum pricing for our properties. We believe our real estate services provide us with benefits that cannot be easily replicated by other property developers in China that are not also engaged in the property agency services business, which positions us well in the competitive real estate market in China.

Experienced and stable management team with proven track record supported by seasoned professional employees

The significant growth of our business since our inception is in large part due to our experienced and stable management team. Mr. Pan, our chairman and chief executive officer, and Ms. Zeng, our executive director, each has over 14 years of experience in real estate development in China, and, along with other members of our senior management team and employees, have established strong relationships with key industry participants. Ms. Zeng was also recognized as one of the leading figures in the real estate industry in Shenzhen in 2002. We have been able to capitalize on the collective expertise of our management and other professional employees so that we can develop and sell properties that appeal to our targeted customers at various locations. We believe that we have benefited, and will continue to benefit, from our management’s extensive experience and knowledge of the PRC property market.

Business Strategies

Continue to expand in fast-growing economic regions in China and selectively acquire low-cost land

We plan to continue to concentrate the growth of our business in the four economically prosperous regions in China in which we currently operate. We believe each of the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region continues to provide attractive opportunities for property development. We intend to procure more low-cost land in each of these regions by adhering to our disciplined approach. Under such approach, a decision to make a land acquisition is made only after comprehensive in-depth market research and analysis and the completion of strict internal review procedures.

We believe that our property agency services business allows us to better understand the property market in China to tailor our product offerings that appeal to our targeted customers and to adjust our marketing and pricing strategies to achieve optimum pricing for our properties, an advantage that cannot be easily replicated by property developers that are not also engaged in property agency services business. Going forward, we intend to continue to capitalize on our extensive experience and market knowledge gained from our property agency services business to selectively identify and acquire land for development.

Focus on further improving the intrinsic synergies of our real estate products and services

We intend to focus on realizing increased synergies among our businesses, a crucial part to our Group's overall success. We intend to continue concentrating on developing urban complexes and boutique upscale residences. We believe our focus on these two types of property development projects allows us to better and more efficiently use our resources to address our target customers' needs and develop long-term business relationships. Our development focus also serves to increase the synergies that can be achieved among each aspect of our businesses. We plan to expand our investment property portfolio by including boutique hotels in the properties that we develop, thereby increasing our recurring income as well as increasing the real estate solutions that we provide to customers. We have also established subsidiaries dedicated to providing hotel services, which we believe also helps to enhance the capabilities of our property operation services provided to more traditional properties, as well as to our urban complexes. We plan to continue to enhance cooperation among our businesses. For example, we plan to enhance the consulting and advisory services that our property agency services provide, which we believe should enhance our ability in gathering market intelligence and identifying potential opportunities for our property development business. We plan to integrate our property operation services' internet information platform with our own secondary property brokerage information database to provide real estate property market information to tenants and residents. This effort will connect the large customer base of our property operation services with our property agency services, further expanding the customer base of our property agency services. We expect that our efforts should allow us to increase the breadth and stability of our revenue streams, reduce our overall exposure to volatility within and reliance on one sector of the real estate property industry and create cross-selling opportunities.

Continue to improve our property operation service and hotel service capabilities to further increase the attractiveness and value of our properties

Our property operation services are an important part of our business and serve a critical role in enhancing the value and environment of our developments, which in turn increases the rental income and the average selling price of our properties. We intend to continue to strengthen our property operation services and strive to offer the highest level of services to tenants and residents and to achieve customer satisfaction.

We started our hotel service business in 2008 by establishing our own hotel management companies. We have entered into agreements with third party international professionals to operate and manage one of our boutique hotels under development. We believe such agreements will allow us to be exposed to the inner workings of operating and managing a boutique hotel and refine the level of hotel services that we provide. In addition, we believe as our hotel services continue to strengthen, the capabilities of our property operation services will also be enhanced as well. Our goal is to establish high quality and distinctive hotel services and further improve our property operation services. We intend to continue to improve the internet information platform of our property operation services to offer additional

value-added services such as online payment options, customized online services for ordering goods and services and accessing real estate market information or brokerage listings. Furthermore, we intend to actively work to expand GFA under management, as well as enhance the capabilities of our building and equipment installation, maintenance and repair services. Finally, we seek to continue to improve the membership program we offer for purchasers of our properties, the Fantasia Club, by providing greater support for and better communication with our purchasers. Continuing to enhance the quality and offering of our property operation services will also serve us well in strengthening our relationships with our key clients and increasing potential referrals among our target customers.

Continue to promote our brand names

We place significant emphasis on developing our brand image and will continue to introduce real estate products and service offerings that will enhance our profile, reputation and image. We have in the past worked closely with leading domestic and international architecture and design firms, such as Huayi Designing Consultancy (Shenzhen) Co., Ltd., Belt Collins International (HK) Ltd., Peddle Thorp Architects-Melbourne of Australia, Architecture Urbanism Building Engineer Co., Ltd. of France and The Collaborative West Co., Ltd. and *atta + K Inc.* of the United States, in creating products that reflect the spirit and essence of our vision and assimilate the latest trends and elements, and will continue to do so in the future.

We intend to continue to employ strict quality control standards and to closely monitor the product quality and the workmanship of our contractors throughout the development process. We also plan to continue to actively participate in the selection of the materials used in our projects in order to achieve desired quality levels and to maintain a cohesive brand image for our properties. In addition, we intend to continue to rigorously monitor and protect our trademarks that we consider essential to our brand image. We will also continue our annual program, Happiness Discovery Trip (發現幸福之旅), to further foster customer awareness as to the artistic and cultural aspects of our brand image. We believe by cultivating a distinctive brand image, we will be able to further enhance our ability to attract our target customers and reinforce such customers' perception of the quality, distinctiveness and comprehensiveness of our products and services.

Our Property Development Projects

Overview

As of March 31, 2010, we had 31 property development projects at various stages of development. Based on the stage of development, we divide our property developments projects into three categories:

- completed projects, comprising properties for which we have received the requisite completion inspection report from the relevant government construction authority;
- projects under development, comprising properties for which we have obtained the requisite construction works commencement permits but are yet to receive the requisite completion inspection report; and
- projects held for future development, comprising properties for which we have obtained the relevant land use rights certificates and started preliminary design work but have not yet received the required construction works commencement permits, as well as properties for which we have not obtained the land use rights certificates but have entered into contractual agreements to obtain the relevant land use rights certificates and started preliminary design work.

In addition to our property development projects under various stages that are included in the above categories, we have also been actively exploring additional property development opportunities. As of March 31, 2010, we had entered into preliminary framework agreements with local government authorities and relevant third parties in relation to four potential new projects which occupy an aggregate site area of approximately 2,054,400 square meters with an aggregate planned GFA of approximately 5,025,117 square meters. We have not yet entered into any detailed agreements to obtain the relevant land use rights certificates for these potential new projects.

For development projects that are comprised of multiple-phase developments on a rolling basis, each phase is considered individually and classified as completed, under development or for future development, depending on whether the relevant completed construction work certified report or the required construction works commencement permit has been obtained for such phase.

We calculate the site area of our projects or phases as follows:

- for projects or phases for which we have obtained land use rights, based on the relevant land use rights certificates, and
- for projects or phases for which we have not obtained land use rights, based on the relevant contractual agreements.

We calculate the total GFA of our projects or phases as follows:

- for projects or phases that are completed, based upon relevant property surveying reports;
- for projects or phase that are not completed but for which pre-sale has commenced, based upon relevant inspection reports required for pre-sale;
- for projects or phases that are under development and for which we have not obtained relevant inspection reports but have obtained the relevant construction works planning permits, based on such construction works planning permits; and
- for projects or phases for which we have not received the relevant construction works planning permits, based on the total GFA indicated in property master plans approved by relevant government authorities or based on our internal records and development plans, which may be subject to change.

We calculate the site area and the total GFA for each phase in a project based on our own internal records and estimates except in circumstances where such information for a particular phase is contained in the relevant land use rights certificate, construction works planning permit, or completion inspection report.

Total GFA as used in this offering memorandum is comprised of saleable GFA and non-saleable GFA. Saleable GFA as used in this offering memorandum refers to the internal floor areas exclusive of non-saleable GFA. Non-saleable GFA as used in this offering memorandum refers to certain communal facilities and ancillary facilities, such as certain underground GFA and spaces for local community management committees and public security offices. Saleable GFA is divided into saleable GFA sold or pre-sold and saleable GFA unsold. A property is considered sold after we have executed the purchase contract with a customer and have delivered the property to the customer. The property is delivered to the customer upon the property being completed, inspected and accepted as qualified. Properties are pre-sold when we have executed the purchase contract but have not yet delivered the properties to the customer. Saleable GFA unsold is further divided into GFA unsold held for sale and GFA unsold held for investment.

We calculate the saleable GFA for our projects or phases as follows:

- for projects or phases that are completed, based on the saleable GFA as determined upon relevant property surveying reports;
- for projects or phases that have not received the completion inspection report upon completion but have obtained the relevant inspection reports required for pre-sale, based on the saleable GFA in such relevant inspection reports;
- for projects or phases that have not received the relevant inspection reports required for pre-sale but have received relevant construction works planning permits, based on the construction works planning permits; and

- for projects or phases that have not received relevant construction works planning permits, based on the total GFA indicated in property master plans approved by relevant government authorities or based on our internal records and development plans, which may be subject to change.

Furthermore, the following information that appears in this offering memorandum is also based on our internal records and estimates: (i) saleable GFA sold or pre-sold, saleable GFA unsold, saleable GFA unsold held for sale, saleable GFA unsold held for investment, and (ii) information regarding expected completion and pre-sale commencement date and number of residential units, office space, commercial units and car parking spaces.

During the three-year period ended December 31, 2009, we did not experience any delay in delivering properties to our customers based on the time frame set forth in the respective purchase contracts. In addition, development costs for each of our projects were within their respective budgets during such period. However, as a result of the slowdown of China's economy caused by the recent global financial and economic crisis, we delayed certain of our projects that were scheduled to be launched for pre-sale in 2008 until 2009 or 2010.

The following table sets forth information as to the site area and the GFA in square meters for each of our property development projects or its respective phases and its completion date or expected completion as of dates indicated:

Projects/Phases	As of March 31, 2010										Types of Properties ⁽¹⁾
	Site Area	Held for Sale	Held for Investment or for Hotel Management	Total Saleable GFA Sold	Total Saleable GFA Pre-sold	Our Interest in the Project	Actual or Expected Construction Commencement Date	Actual or Expected Completion Date	Actual or Expected Pre-sale Commencement Date		
Completed Projects/Phases											
Chengdu:											
Chengdu Pair Life (成都锦上花)	3,000	-	128	12,765	-	58.8% ⁽²⁾	April 2003	March 2004	n/a		R, C
Human Art Wisdom (藝墅花鄉)	4,897	-	6,411	21,369	-	58.8% ⁽²⁾	September 2003	October 2004	n/a		R, C, P
Fantasia Special Town (別樣城) (All phases)	136,343	-	2,765	201,958	-	100%	February 2005	Phase I: December 2005 Phase II: April 2007 Phase III: August 2007	n/a		R, C, P
Chengdu Love Forever (成都花郡) (All phases)	71,989	35,368	-	292,551	442	100%	May 2006	Phase I: September 2007 Phase II: December 2007 Phase III: November 2008 Phase IV: June 2009 Phase V: January 2009	n/a		R, C, P
Chengdu My Place (成都花好園)	9,249	460	5,862	42,141	-	100%	April 2007	October 2008	n/a		R, C, O, P
Fantasia Town (花樣城) (Phase I.1)	136,667 ⁽³⁾	24,493	-	81,469	-	100%	March 2008	March 2009	n/a		R, C, P
Chengdu Hailrun Plaza (成都喜年廣場)	9,039	17,668	20,331	44,255	32,533	100%	January 2008	December 2009	September 2008		
Grand Valley (大溪谷) (Phase 1)	124,173	14,876	-	96,877	498	100%	Phase 1.1: November 2007 Phase 1.2: September 2008	Phase 1.1: December 2008 Phase 1.2: November 2009	Phase 1.1: n/a Phase 1.2: September 2008		R, C
Subtotal:		<u>92,865</u>	<u>35,497</u>	<u>793,385</u>	<u>33,473</u>						

As of March 31, 2010

Projects/Phases	Total Saleable GFA Unsold										
	Site Area	Held for Sale	Held for Investment or for Hotel Management	Total Saleable GFA Sold	Total Saleable GFA Pre-sold	Our Interest in the Project	Actual or Expected Commencement Date	Actual or Expected Construction Commencement Date	Actual or Expected Completion Date	Actual or Expected Pre-sale Commencement Date	Types of Properties ⁽¹⁾
Shenzhen:											
Shenzhen Endless Blue (深圳碧云天)	11,944	-	-	43,130	-	52% ⁽⁴⁾	April 1998	January 2000	January 2000	n/a	R, C, P
Fairy Land (芳鄰)	1,481	-	385	14,807	-	52% ⁽⁴⁾	February 2000	September 2001	September 2001	n/a	R, C
Hailrun Complex (喜年中心)	4,907	-	43	39,830	-	52% ⁽⁴⁾	September 2001	February 2003	February 2003	n/a	O, C, P
Shenzhen Pair Life (深圳錦上花)	4,501	136	1,235	39,249	-	52% ⁽⁴⁾	January 2002	November 2003	November 2003	n/a	R, C, P
Self Life (趣園)	3,394	172	1,483	13,457	-	52% ⁽⁴⁾	June 2003	June 2004	June 2004	n/a	R, C, P
Shenzhen My Place (深圳花好園)	13,162	-	11,100	71,849	-	52% ⁽⁴⁾	January 2004	November 2005	November 2005	n/a	R, C, P
Flower Harbor (花港家園)	5,335	994	-	20,800	608	100%	June 2007	December 2008	December 2008	n/a	R, C, P
Shenzhen Future Plaza (深圳香年廣場)	15,145	4,545	-	53,467	2,578	100%	March 2007	October 2008	October 2008	n/a	O
Shenzhen Meinian Plaza (深圳美年廣場) ⁽⁹⁾	29,546	36,710	36,710	-	-	100%	May 2007	August 2009	August 2009	n/a	O
Subtotal		<u>42,557</u>	<u>50,956</u>	<u>296,589</u>	<u>3,186</u>						

As of March 31, 2010

Projects/Phases	Site Area	Held for Sale	Total Saleable GFA Unsold		Our Interest in the Project	Actual or Expected Construction Commencement Date	Actual or Expected Completion Date	Actual or Expected Pre-sale Commencement Date	Types of Properties ⁽¹⁾
			Held for Investment or for Hotel Management	Total Saleable GFA Sold					
Project/Phases Under Development									
Chengdu:									
Meinian International Plaza (美年國際廣場) (Phases 1.1, 1.2 and 1.3)	9,037	326,929	-	-	100%	December 2010	Phase 1.1: December 2010 Phase 1.2: December 2010 Phase 1.3: October 2011	Phase 1.1: September 2009 Phase 1.2: September 2009 Phase 1.3: n/a	R, O, C, P
Fantasia Town (花漾城)	126,667	102,923	-	-	100%	Phase 1.2: March 2008 Phase 2: October 2009	Phase 1.2: September 2011 Phase 2: September 2011	Phase 1.2: n/a Phase 2: December 2009	R, C, P
Chengdu Future Plaza (成都香年廣場)	13,863	235,246	-	-	100%	December 2009	December 2012		R, O, C
Chengdu Mont Conquerant (成都君山) (Phase 1)	491,209 ⁽⁶⁾	37,757	-	-	100%	November 2008	December 2010	July 2009	R, C
Chengdu Mont Conquerant (成都君山) (Phase 2.1)	n/a ⁽⁶⁾	12,699	-	-	100%	February 2010	October 2011	n/a	R, C
Grand Valley (大溪谷) (Phase 2.1)	123,303	78,773	-	-	100%	September 2009	December 2010	September 2009	R
Shenzhen:									
Shenzhen Lover Forever (深圳花郡)	23,955	54,324	-	-	52% ⁽⁴⁾	October 2008	South District: October 2010 North District: April 2011	South District: September 2009 North District: June 2010	R, C, P
Dongguan:									
Dongguan Mont Conquerant (東莞君山) (All phases)	52,853	98,804	-	-	100%	Phase 1: June 2009 Phase 2: September 2009	Phase 1: March 2010 Phase 2: June 2011	Phase 1: July 2009 Phase 2: October 2010	R, P
Yixing:									
Town on the Water (雲海間)	66,664	16,060	7,095	9,516	60% ⁽⁷⁾	November 2007	June 2010	November 2008	R, H
Tianjin:									
Tianjin Hailun Plaza (All phases) (天津喜年廣場)	21,410	49,516	-	-	60% ⁽⁸⁾	September 2008	Phase 1: June 2010 Phase 2: June 2011	Phase 1: April 2009 Phase 2: February 2010	R, O, C, P
Subtotal		<u>1,013,031</u>	<u>7,095</u>	<u>9,516</u>					<u>207,391</u>

As of March 31, 2010

Projects/Phases	Total Saleable GFA Unsold							Types of Properties ⁽¹⁾		
	Site Area	Held for Sale	Held for Investment or for Hotel Management	Total Saleable GFA Sold	Total Saleable GFA Pre-sold	Our Interest in the Project	Actual or Expected Construction Commencement Date		Actual or Expected Completion Date	Actual or Expected Pre-sale Commencement Date
Future Development Projects/Phases – Land Use Rights Obtained										
Chengdu:										
Meinian International Plaza (美年國際廣場) (All phases except phases 1.1, 1.2 and 1.3)	170,032 ⁽⁵⁾	388,982	-	-	-	100%	-	-	-	R, O, C, P
Fantasia Town (花漾城) (All remaining phases)	126,667 ⁽³⁾	347,194	-	-	-	100%	-	-	-	R, C, P
Chengdu Mont Conquerant (成都君山) (All remaining phases)	491,209 ⁽⁶⁾	292,576	-	-	-	100%	-	-	-	R, C
Grand Valley (大溪谷) (All remaining phases)	812,233	1,462,129	-	-	-	100%	-	-	-	R
Shenzhen:										
Shenzhen Fumian Plaza (深圳福年廣場)	18,718	46,795	-	-	-	100%	June 2010	June 2011	-	O
Huizhou:										
Huizhou Endless Blue (惠州碧雲天)	35,000	136,921	-	-	-	100%	December 2010	December 2012	-	R, C, P
Tianjin:										
Huiyang Project (惠陽項目)	172,000	510,205	-	-	-	100%	September 2010	December 2011	-	R, C, P
Jiangsu:										
Suzhou Taihu Project (蘇州太湖酒店)	379,636	533,121	-	-	-	100%	-	-	-	R, P
Wuxi:										
Wuxi Project (無錫項目)	123,670	219,206	-	-	-	100%	-	-	-	R, C, P
Yunnan:										
Dali Project (大理項目)	9,213	64,488	-	-	-	100%	-	-	-	R, C, P
Subtotal	2,438,377	4,140,809								

Notes:

- (1) Types of properties include: (i) “R,” which stands for “residential,” (ii) “C,” which stands for “commercial,” (iii) “O,” which stands for “office and others,” including office, industrial and warehouse, (iv) “H,” which stands for “hotel,” and (v) “P,” which stands for “car park,” and “basement area” of Dongguan Mont Conquerant (東莞君山) and Suzhou Taihu Project (蘇州太湖項目), for additional information, see “Our Business — Our Property Development Projects — Pearl River Delta Region — Outside Shenzhen — Dongguan Mont Conquerant (東莞君山)” and “Our Business — Our Property Development Projects — Yangtze River Delta Region — Suzhou Taihu Project (蘇州太湖項目).”
- (2) The project was developed by Fantasia (Chengdu) Development Co., Ltd., a project company in which we hold 58.8% equity interest with the remaining 31.2% held by Qiu Qiong Ming (邱瓊明) indirectly and 10% held by Sichuan Zhong Xu Investment Co., Ltd. (“Sichuan Zhong Xu”) directly.
- (3) This includes site area for all phases of Fantasia Town (花樣城). Specific site area information for each phase of this project is not available.
- (4) The project was developed by Shenzhen Xingsyan Investment Development Co., Ltd., a project company in which held 52% equity interest, with the remaining 48% held by Qiu Qiong Ming (邱瓊明), at the time of development of the project.
- (5) This includes site area for all phases of Meinian International Plaza (美年國際廣場), including site area of approximately 56,711 square meters zoned for educational use. Specific site area information for each phase of this project is not available.
- (6) This includes site area for all phases of chengdu Mont Conquerant (成都君山). Specific site area information for each phase of this project is not available.
- (7) The project was developed by Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd., a project company in which hold 60% equity interest, with the remaining 40% held by Jing Liu.
- (8) The project was developed by Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd., a project company in which hold 60% equity interest, with the remaining 40% held by Tianjin Songjiang Group Co., Ltd. (“Tianjin Songjiang Group”).
- (9) The Incubation Park of the Shenzhen Meinian Plaza (深圳美年廣場) was developed by Shenye Pengji (Group) Co., Ltd. (深業鵬基(集團)有限公司), an Independent Third Party. Construction of the Incubation Park was completed in August 2009. We have entered into a property transfer agreement with Shenye Pengji (Group) Co., Ltd. (深業鵬基(集團)有限公司) which agreed to sell the Incubation Park to us when the construction is completed. We plan to hold the Incubation Park partly for lease and partly for sale. Before we acquire the property interest of the Incubation Park, the relevant GFA is considered as total GFA for future development by us. For additional information, see “Our Business — Our Property Development Projects — Pearl River Region — Shenzhen — Shenzhen Meinian Plaza (深圳美年廣場).”
- (10) We have entered into relevant share transfer agreement in relation to the acquisition of two project companies that held the land use rights for this project. However, as of the Latest Practicable Date, we had not entered into any further share transfer agreements and had not acquired relevant land use rights certificates for this project. For additional information, see “Our Business — Our Property Development Projects — Yangtze River Delta Region — Suzhou Taihu Project (蘇州太湖項目).”

The classification of properties in this offering memorandum is different from the classification of properties in the consolidated financial statements included in this offering memorandum.

Some of the information contained in the above table and the following descriptions of the individual projects and elsewhere in this offering memorandum may differ from our consolidated financial statements and the notes thereto included elsewhere in this offering memorandum because, among other things:

- properties that have been sold are not included in the consolidated statements of financial position and the notes thereto;
- saleable GFA unsold under our classification only include saleable GFA that have not been sold or pre-sold while “completed properties for sales” as used in our consolidated financial statements and the notes thereto, which is recorded under “properties for sales” on the consolidated statements of financial position, include properties that have not been contracted to be sold and properties pre-sold but have not been delivered to customers; and
- “properties for sales” and “investment properties” as recorded on our consolidated statements of financial position and the notes thereto include “completed properties for sales,” “properties under development,” “completed investment properties” and “investment properties under development” which include all properties that we classify as projects or phases under development whether we intend to hold such properties for sales or for investment after completion.

The table below sets forth our classification of properties and the corresponding classification of properties in our consolidated financial statements and the notes thereto contained in this offering memorandum:

<u>Types of Properties</u>	<u>Offering memorandum</u>	<u>Consolidated financial statements</u>
<ul style="list-style-type: none"> • Properties for which we have received the completed construction works certified report from the relevant government construction authorities 	<ul style="list-style-type: none"> • Completed projects 	<ul style="list-style-type: none"> • Completed properties for sales (excludes completed properties that have been sold) • Completed investment properties
<ul style="list-style-type: none"> • Properties for which we have obtained the required construction works commencement permits but are yet to receive the completed construction works certified report 	<ul style="list-style-type: none"> • Properties under development 	<ul style="list-style-type: none"> • Properties for sales – Under development • Investment properties under development
<ul style="list-style-type: none"> • Properties for which we have obtained the relevant land use rights certificates and started preliminary design work but have not yet received the required construction works commencement permits 	<ul style="list-style-type: none"> • Future development projects – land use rights obtained 	<ul style="list-style-type: none"> • Properties for sales – Under development • Investment properties under development
<ul style="list-style-type: none"> • Properties for which we have not obtained land use rights certificates but have entered into contractual agreements to obtain the relevant land use rights certificates and started preliminary design work 	<ul style="list-style-type: none"> • Future development projects – property rights to be acquired and potential new property development projects 	<ul style="list-style-type: none"> • Properties for sales – Under development • Investment properties under development

The table below sets forth the saleable GFA for each of our projects in terms of the use or planned use of the properties as of March 31, 2010, but does not include four potential new projects for which we have only entered into preliminary framework agreements:

	Completed Properties	Properties Under Development	Properties for Future Development – Land Use Rights Obtained
Residential (in square meters)	937,286	685,916	3,289,915
Office and others (in square meters)	255,557	296,083	352,063
Commercial (in square meters)	68,502	26,861	171,449
Hotel (in square meters)	20,331	17,990	88,946
Car parking spaces and basement area (in square meters)	70,912	210,183	238,436
Total	1,352,588	1,237,033	4,140,808

The following table sets forth the GFA of our property development projects by location as of March 31, 2010 but does not include four potential new projects for which we have only entered into preliminary framework agreements:

	Total GFA Completed	Total GFA Under Development	Total GFA for Future Development – Land Use Rights Obtained
Chengdu-Chongqing Economic Zone (in square meters)			
– Chengdu	1,008,338	925,109	2,565,807
Pearl River Delta region (in square meters)			
– Shenzhen	471,936	132,336	67,908
– Other cities ⁽¹⁾	0	142,928	754,545
Yangtze River Delta region (in square meters)			
– Yixing	0	41,432	0
– Suzhou	0	0	533,121
– Wuxi	0	0	222,606
Beijing-Tianjin metropolitan region (in square meters)			
– Tianjin	0	131,341	168,339
Others	0	0	64,488
Total	1,480,274	1,373,146	4,376,814

Note:

(1) Include Dongguan and Huizhou.

The following are detailed descriptions of each of our projects as of March 31, 2010, unless otherwise indicated. For certain of these projects, we share land use and development rights with other entities in a prescribed proportion according to the relevant agreements. The commencement date relating to each project or each phase of a project refers to the date on which construction commenced. The completion date set out in the descriptions of our completed projects or phases refers to the date on which the completed construction works certified report was obtained for each project or each phase of a multi-phase project. For projects or phases under development or for future development, the completion date of a project or phase reflects our best estimate based on our current development plans.

Chengdu

Chengdu Pair Life (成都錦上花)

Chengdu Pair Life (成都錦上花) is an 11-storey residential apartment building located at No. 8, Dachuan Lane, Jinjiang District, Chengdu, Sichuan Province. It is located in the central urban district of Chengdu, close to a landmark building and two universities and overlooks a river. The project occupies a total site area of approximately 3,000 square meters with an aggregate completed GFA of approximately 13,178 square meters. Commenced in April 2003, this project was completed in March 2004. The project was developed by Fantasia (Chengdu) Development Co., Ltd., a project company in which we hold 58.8% equity interest. Fantasia (Chengdu) Development Co., Ltd. holds a 100% interest in the project. The land use rights for the project were granted for residential and commercial purposes. We obtained the land use rights for the project through acquisition of the entire project from an independent third party that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>
Total saleable GFA (in square meters)	11,381	1,512
Number of units	229	18
Total GFA sold (in square meters)	11,381	1,384
Total GFA retained for investment (in square meters)	–	128

Human Art Wisdom (藝墅花鄉)

Human Art Wisdom (藝墅花鄉) is a 16-storey residential and commercial building located on Jiangxi Street and Ximanqian Street in Wuhou District, Chengdu, Sichuan Province. It is located within a prosperous commercial district, close to a large ecological square, a park and three universities and has easy access to public transportation and other facilities such as banks, restaurants, shopping malls and hospitals. The building also features a transparent lobby and a distinctive quintuple-layered ecologic garden. The project occupies a total site area of approximately 4,897 square meters with an aggregate completed GFA of approximately 27,780 square meters. Commenced in September 2003, the project was completed in October 2004. The project was developed by Fantasia (Chengdu) Development Co., Ltd., a project company in which we hold 58.8% equity interest. Fantasia (Chengdu) Development Co., Ltd. holds a 100% interest in the project. The land use rights for the project were granted for residential and commercial purposes. We obtained the land use rights for the project through government-organized listing-for-sale. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>	<u>Car Park</u>
Total saleable GFA (in square meters)	16,378	4,671	6,731
Number of units	323	n/a ⁽¹⁾	180
Total GFA sold (in square meters)	16,378	4,671	320
Total GFA retained for investment (in square meters)	–	–	6,411

Note:

(1) Not divided into individual units.

Fantasia Special Town (別樣城)

Fantasia Special Town (別樣城) is a large residential community located on Huanglong Road, Gongxing Town, Shuangliu County, Chengdu, Sichuan Province. The project features ancillary facilities that include a swimming pool, a basketball court, a tennis court, a badminton court, a table-tennis center, and other gym facilities. The project occupies a total site area of approximately 136,343 square meters with an aggregate completed GFA of approximately 207,987 square meters. Commenced in February 2005, the final phase of the project was completed in August 2007. The construction of the project was divided into three phases. All three phases of the project were developed by Chengdu Tonghe Real Estate Co., Ltd., our currently wholly owned project company. Chengdu Tonghe Real Estate Co., Ltd. holds a 100% interest in the project. The land use rights for the project were granted for residential purposes.

Based on relevant construction land planning permit, we were allowed to develop residential and ancillary commercial properties for this project. We obtained the land use rights for the project through acquisition of a project company that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>	<u>Car Park</u>
Total saleable GFA (in square meters)	198,059	6,388	276
Number of units	1,755	82	15
Total GFA sold (in square meters)	198,059	3,899	–
Total GFA pre-sold (in square meters)	–	–	–
Total GFA retained for investment (in square meters)	–	2,489	276

Chengdu Love Forever (成都花郡)

Chengdu Love Forever (成都花郡) is a large scale residential community located at No.99, Shuangqing Road, Chenghua District, Chengdu, Sichuan Province. It is also linked to the city center and the Third Ring Road of Chengdu by expressways and therefore has easy access to all parts of the city. The project was awarded the Property of the Year for the Golden Hibiscus Prize in Chengdu in 2006 (2006金芙蓉杯成都年度樓盤金獎) presented by the Chengdu Real Estate Bureau (成都市房地產管理局) and Sichuan Daily Group (四川報業集團) and was recognized as a Model Property for the Rediscovery of the City Center in Chengdu in 2008 (2008成都城市地理再發現中心城代言樓盤) by Chengdu Business Daily (成都商報). The project occupies a total site area of approximately 71,989 square meters with an aggregate completed GFA of approximately 354,967 square meters. The project is divided into five phases and is comprised of in the aggregate 3,202 residential units with a total saleable GFA of approximately 277,322 square meters, 207 retail units with a total saleable GFA of approximately 18,479 square meters and 1,013 car parking spaces with a total saleable GFA of approximately 32,560 square meters. In addition, the project includes approximately 10,238 square meters of car parking spaces equipped with mechanical parking systems that are non-saleable with respect to the individual units, which we intend to retain these non-saleable spaces for investment. Commenced in May 2006, the final phase of the project was completed in June 2009. All phases of the project were developed by Chengdu Huawanli Real Estate Co., Ltd., our wholly owned project company. Chengdu Huawanli Real Estate Co., Ltd. holds a 100% interest in the project. We have obtained the land use rights certificates for all phases of the project. The land use rights for the project were granted for residential and commercial purposes. We obtained the land use rights for the project through government-organized listing-for-sale. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>	<u>Car Park</u>
Total saleable GFA (in square meters)	277,322	18,479	32,560
Number of units	3,202	207	1,013
Total GFA sold (in square meters)	277,322	10,231	4,998
Total GFA pre-sold (in square meters)	–	–	442
Total GFA retained for investment (in square meters)	–	–	–

Chengdu My Place (成都花好園)

Chengdu My Place (成都花好園) is a residential and commercial community located at No.9 Wuqing South Road, Wuhou District, Chengdu, Sichuan Province. The project is comprised of four 20-storey buildings with a simple and modern style. The project occupies a total site area of approximately 9,249 square meters with an aggregate completed GFA of approximately 49,846 square meters. Commenced in April 2007, the project was completed in October 2008. The project was developed by Chengdu Huaqianli Real Estate Co., Ltd., our wholly owned project company. We hold a 100% interest in the project. The land use rights for the project were granted for residential and commercial purposes. Based on relevant pre-sale permits, we were allowed to sell residential, commercial properties and office spaces for this project. We obtained the land use rights for the project

through establishing a joint venture project company with an independent third party that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>	<u>Office</u>	<u>Car Park</u>
Total saleable GFA (in square meters)	22,657	1,204	18,740	5,862
Number of units	263	19	369	180
Total GFA sold (in square meters)	22,657	1,089	18,395	–
Total GFA pre-sold (in square meters)	–	–	–	–
Total GFA retained for investment (in square meters)	–	–	–	5,862

Fantasia Town (花樣城)

Fantasia Town (花樣城) is expected to be a large scale residential community located at Guangming Community, Jinma Town, Wenjiang District, Chengdu, Sichuan Province. Wenjiang District is one of the most developed residential areas in the suburbs of Chengdu. It has an established municipal infrastructure system and is linked by four main roads to the center of Chengdu. It also enjoys a rich biological environment and beautiful scenery and is the site of several hot springs. The project was recognized as a Model Property for High Quality Living Environment in Chengdu in 2008 (2008成都優居示範樓盤) by Chengdu Real Estate Bureau (成都市房地產管理局). The project occupies a total site area of approximately 126,667 square meters with a planned aggregate GFA of approximately 593,654 square meters. The project is divided into several phases and is expected to have a total saleable GFA of approximately 563,524 square meters with approximately 440,014 square meters for residences, approximately 23,546 square meters for commercial use and approximately 99,964 square meters for car parking spaces. All phases of the project are being, or are expected to be, developed by Chengdu Huabaili, our wholly owned project company. We hold a 100% interest in the project. As of March 31, 2010, we had obtained the land use rights certificates for all phases of the project. The land use rights for the project were granted for residential purposes. Based on relevant construction works planning permits, we were allowed to develop residential and ancillary commercial properties for this project. We obtained the land use rights for the project through acquisition of a project company that held the land use rights.

Phase 1.1 of the project is comprised of six 13-storey buildings with an completed aggregate GFA of approximately 109,892 square meters. Commenced in March 2008, construction of Phase 1.1 was completed in March 2009. Details of Phase 1.1 of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>	<u>Car Park</u>
Total saleable GFA (in square meters)	81,469	3,420	21,073
Number of units	924	49	600
Total GFA sold (in square meters)	81,469	–	–
Total GFA pre-sold (in square meters)	–	–	–
Total GFA retained for investment (in square meters)	–	–	–

Phase 1.2 of the project is comprised of two buildings with a planned total GFA of approximately 8,144 square meters. It is expected to have an aggregate saleable GFA of approximately 8,144 square meters for commercial use. As of March 31, 2010, we had obtained the construction works commencement permits for Phase 1.2. Commenced in March 2008, construction of Phase 1.2 is expected to be completed in September 2011.

In addition, in October 2009, we had further obtained relevant construction works commencement permits for Phase 2 of this project which has a planned total GFA of approximately 105,469 square meters. Phase 2 is expected to have an aggregate saleable GFA of approximately 102,224 square meters with approximately 87,374 square meters for residences and approximately 14,850 square meters for car parking spaces. Commenced in October 2009, construction of Phase 2 is expected to be completed in May 2011. As of March 31, 2010, we had obtained the relevant pre-sales permit for Phase 2.

The remaining phases of the project have a planned total GFA of approximately 370,149 square meters. These phases are expected to have an aggregate saleable GFA of approximately 347,194 square meters with approximately 271,171 square meters for residences, approximately 11,982 square meters for commercial use and approximately 64,041 square meters for car parking spaces. As of March 31, 2010, we had obtained the construction land planning permit for these remaining phases.

We also plan to develop additional phases of the project in the future.

Grand Valley (大溪谷)

Grand Valley (大溪谷) is a large scale residential complex located in Jinhua and Qixin Villages, Heshan Town, Pujiang County, Chengdu, Sichuan Province. It is about one kilometer away from the exit of the Chengdu-Ya'an Expressway and is about a 40 minutes drive to the city center of Chengdu. Pujiang County is also a national ecological model county and enjoys an exceptional advantage as to its natural surroundings. The project is surrounded by natural sceneries, including Changqiu mountain with an area of about 20 square kilometers, and pristine lakes and wetland with an area of about 200,000 square meters. The project is divided into several phases. Each phase of the project was, is being, or is expected to be, developed by Fantasia Chengdu Ecological Tourism Development Co., Ltd., our wholly owned project company. Fantasia Chengdu Ecological Tourism Development Co., Ltd. holds a 100% interest in the project. We position the project as the "No. 1 Valley for Vacation in China" and plan to develop the project in cooperation with famous designing teams, including Architecture Urbanism Building Engineer Co., Ltd. of France and The Collaborative West Co., Ltd. and *atta + K Inc.* of the United States. The project occupies a total site area of approximately 1,059,709 square meters with a total planned GFA of approximately 1,654,556 square meters. As of March 31, 2010, we had obtained the land use rights for all parcels of land for this project. We obtained the land use rights through several government-organized listings and auctions.

We completed construction of Phase 1.1 and Phase 1.2 in December 2008 and November 2009, respectively of the project. Phase 1.1 of the project is comprised of 55 three- to six-storey buildings. It occupies a site area of approximately 62,564 square meters with an aggregate completed GFA of approximately 50,839 square meters. The land use rights for Phase 1.1 were granted for residential and commercial purposes. Phase 1.2 of the project is comprised of 54 three- to four-storey buildings. It occupies a site area of approximately 61,609 square meters with a GFA of approximately 61,631 square meters. The land use rights for this phase were granted for residential purposes.

Details of Phases 1.1 and 1.2 of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>
Total saleable GFA (in square meters)	108,598	3,653
Number of units	653	57
Total GFA sold (in square meters)	95,767	1,110
Total GFA pre-sold (in square meters)	478	21
Total GFA retained for investment (in square meters)	-	-

We also obtained the land use rights certificates for Phase 2.1 of the project. Commenced in September 2009, construction of Phase 2.1 is expected to be completed in December 2010. Phase 2.1 occupies a site area of 123,303 square meters with a planned GFA of approximately 79,958 square meters. Phase 2.1 of the project is expected to be comprised of 35 low-rise boutique residences with an aggregate saleable GFA of approximately 79,958 square meters. The land use rights for Phase 2.1 were granted for residential purpose. As of March 31, 2010, we had also obtained the relevant pre-sale permit for certain portion of Phase 2.1.

We plan to further develop several additional phases of the project on the remaining parcels of land, which occupy an aggregate site area of 812,233 square meters with a total planned GFA of approximately 1,462,129 square meters. These remaining phases are expected to have an aggregate saleable GFA of approximately 1,462,129 square meters with approximately 1,426,790 square meters for residences and approximately 35,339 square meters for commercial use. The land use rights for these phases were granted for residential use. Based on relevant opinion on design and planning issued by local urban planning bureau, we were allowed to develop residential and ancillary commercial properties for this project.

Chengdu Hailrun Plaza (成都喜年廣場)

Chengdu Hailrun Plaza (成都喜年廣場) is located on Dongda Street in the peripheral area of the central business district of Chengdu, Sichuan Province. All land parcels along Dongda Street have been designated for commercial uses and the surrounding area is expected to become a new commercial and financial center that will merge into the existing central business district of Chengdu. The project is designed to be a large urban complex comprised of a 49-storey building and a 32-storey building which will include prime office space, luxury apartments, a boutique hotel and a shopping mall. The 49-storey building became the tallest building in Chengdu upon completion in December 2009. The project is close to the largest three shopping centers and two famous tourism and recreational zones in the center of Chengdu and also has easy access to public transportation. A new subway line along Dongda Street is also expected to be completed in 2011 which we believe will further increase the value of the project. The project was awarded the Star Property of the Year and the Driving Force of Real Estate Industry in Chengdu in 2008 (2008成都房地產推動力大獎年度明星樓盤) presented by Chengdu Media Group (成都傳媒集團), the Ginkgo Prize as the Office Building with the Greatest Industrial Momentum in Chengdu in 2008 (銀杏杯2008年成都最具行業推動力寫字樓大獎) presented by Chengdu Television Station (成都電視臺) and the Most Anticipated Property in Chengdu in 2009 (成都地產2009值得期待樓盤), presented by Sichuan Daily Press Group (四川日報報業集團) and Chendu Real Estate Bureau (成都市房地產管理局). The project occupies a total site area of approximately 9,039 square meters with an aggregate GFA of approximately 132,218 square meters. Commenced in January 2008, the project was completed in December 2009. The project was developed by Chengdu Tonghe Real Estate Co., Ltd., our wholly owned project company. We holds a 100% interest in the project. As of March 31, 2010, we had obtained the land use rights certificate for this project. The land use rights for the project were granted for commercial and service purposes. We obtained the land use rights for the project through government-organized auction. We had also obtained the relevant pre-sale permits for the project. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Office</u>	<u>Hotel</u>	<u>Commercial</u>	<u>Car Park</u>
Total saleable GFA (in square meters)	23,049	64,238	20,331	2,759	4,410
Number of units	468	334	n/a ⁽¹⁾	9	140
Total GFA sold (in square meters) . . .	-	43,589	-	666	-
Total GFA pre-sold (in square meters)	22,805	9,728	-	-	-
Total GFA retained for investment (in square meters)	-	-	20,331	-	-

Note:

(1) *Not divided into individual units.*

In addition, the project includes approximately 11,153 square meters of car parking spaces equipped with mechanical parking systems that are non-saleable and we also intend to retain these non-saleable spaces for investment.

Meinian International Plaza (美年國際廣場)

Meinian International Plaza (美年國際廣場) is expected to be a large urban complex located near the Fu river in the New and High-Technology Zone, Chengdu, Sichuan Province. We believe the New and High-Technology District offers great development potential as several agencies of the city government

of Chengdu have relocated to this district. The project occupies a total site area of approximately 170,032 square meters with a planned GFA of approximately 874,285 square meters. We have obtained the land use rights certificate for all phases of the project. The land use rights for approximately 113,321 square meters of the land were granted for residential and commercial purposes and the land use rights for the remaining 56,711 square meters were allocated for educational purposes and were not for sale. The project is divided into several phases and is expected to have an aggregate saleable GFA of approximately 186,896 square meters for residences, an aggregate saleable GFA of approximately 80,000 square meters for hotel, an aggregate saleable GFA of approximately 341,260 square meters for office spaces, an aggregate saleable GFA of approximately 15,100 square meters for commercial use and an aggregate saleable GFA of approximately 179,337 square meters for car parking spaces. In addition, the project is expected to include a GFA of approximately 29,033 square meters for educational purposes that are not for sale. All phases of the project are being, or are expected to be, developed by Sichuan Ximei Real Estate Development Co., Ltd., our wholly owned project company. We hold a 100% interest in the project. As of March 31, 2010, we had obtained land use rights certificates and the construction works commencement permits for all phases of this project. We obtained the land use rights for the project through government-organized listing-for-sale.

Phase 1.1 of the project is comprised of four 18-storey residential buildings. It has a planned GFA of approximately 89,591 square meters. Commenced in January 2009, construction of Phase 1.1 is expected to be completed in December 2010. We had also obtained the relevant pre-sale permits for Phase 1.1. Details of Phase 1.1 of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Car park</u>
Total planned saleable GFA (in square meters)	58,354	27,160
Number of units	n/a ⁽¹⁾	n/a ⁽¹⁾
Total GFA pre-sold (in square meters)	56,150	–

Note:

(1) *Not available.*

Phase 1.2 of the project is comprised of one 12-storey office building. It has a planned GFA of approximately 136,710 square meters. Commenced in January 2009, construction of Phase 1.2 is expected to be completed in December 2010. We had also obtained relevant pre-sale permits for Phase 1.2. Details of Phase 1.2 of the project as of March 31, 2010 are set forth below:

	<u>Office</u>	<u>Car park</u>	<u>Commercial</u>
Total planned saleable GFA (in square meters)	96,478	33,975	3,402
Number of units	n/a ⁽¹⁾	n/a ⁽¹⁾	n/a ⁽¹⁾
Total GFA pre-sold (in square meters)	30,461	–	71

Note:

(1) *Not available.*

Phase 1.3 of the project is comprised of five high rise residential buildings. It has a planned GFA of approximately 198,139 square meters. Commenced in January 2009, construction of Phase 1.3 is expected to be completed in October 2011. Details of Phase 1.3 of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Car park</u>
Total planned saleable GFA (in square meters)	128,542	65,699
Number of units	n/a ⁽¹⁾	n/a ⁽¹⁾

Note:

(1) *Not available.*

We also plan to develop additional phases of the project in the future. These additional phases are expected to have a total planned GFA of approximately 449,845 square meters, with an aggregate saleable GFA of approximately 80,000 square meters for hotel, approximately 244,782 square meters for office spaces, approximately 11,698 square meters for commercial use and an aggregate saleable GFA of approximately 52,502 square meters for car parking spaces. As of March 31, 2010, we had obtained the construction land planning permit for these additional phases.

Chengdu Mont Conquerant (成都君山)

Chengdu Mont Conquerant (成都君山) is expected to be a large scale, low density residential community located in a famous tourist attraction in Yongshang Town, Xin Jin County, Chengdu, Sichuan Province. It is approximately three kilometers away from the center of Yongshang Town, approximately seven kilometers from Chengdu-Ya'an Express Way, approximately 18 kilometers away from the airport, and approximately 39 kilometers away from the city center of Chengdu. The project occupies a total site area of approximately 491,209 square meters. The project is divided into several phases. All phases of the project are being, or are expected to be, developed by Chengdu Xinjin Youbang Real Estate Development Co., Ltd., our wholly owned project company. We hold a 100% interest in the project. We have obtained the land use rights certificate for all phases of the project. The land use rights for the project were granted for residential and commercial purposes. We obtained the land use rights for the project through acquisition of a project company that held the land use rights.

Phase I of the project is comprised of 65 three-storey buildings. It has a planned GFA of approximately 50,560 square meters. Commenced in November 2008, construction of Phase I is expected to be completed in December 2010. As of March 31, 2010, we had obtained the pre-sale permit for Phase I. Details of Phase I of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>
Total planned saleable GFA (in square meters)	47,228	948
Number of units	151	1
Total GFA pre-sold (in square meters)	10,419	–
Total GFA retained for investment (in square meters)	–	–

We have obtained the land use rights certificate for Phase 2.1 of the project. The Phase 2.1 has a planned GFA of 12,699 square meters. The construction of Phase 2.1 commenced in February 2010 and is expected to be completed in December 2011. As of March 31, 2010, we had obtained the construction works planning permits and the construction works commencement permits for Phase 2.1. Details of Phase 2.1 as of March 31, 2010 are set forth below:

	<u>Residential</u>
Total planned saleable GFA (in square meters)	12,699
Number of units.	n/a
Total GFA pre-sold (in square meters)	–
Total GFA retained for investment (in square meters)	–

We also plan to develop additional phases of the project which are expected to have a total planned GFA of approximately 283,685 square meters. These phases are planned to have an aggregate saleable GFA of 8,946 square meters for hotel, approximately 267,348 square meters for residences, approximately 9,501 square meters for commercial use and approximately 6,781 square meters for car parking spaces. As of March 31, 2010, we had obtained the construction land planning permits for these additional phases.

Chengdu Future Plaza (成都香年廣場)

Chengdu Future Plaza (成都香年廣場) is expected to be two or more high-rise office buildings located in Jianshe, Shuangtu and Minle Villages, High-Technology Zone, Chengdu, Sichuan Province. The project occupies a total site area of approximately 13,863 square meters with a planned GFA of approximately 243,839 square meters. The project is planned to have an aggregate saleable GFA of approximately 235,246 square meters with an aggregate saleable GFA of 147,938 square meters for office spaces, approximately 40,140 square meters for residences, approximately 4,660 square meters for commercial use and approximately 42,508 square meters for basement area most of which we intend to retain for car parking spaces.

The development of the project commenced in December 2009 and to be completed in December 2012. The project is expected to be developed by Chengdu Jiurong Real Estate Development Co., Ltd. As of December 31, 2009, we had obtained the land use rights certificate, construction land planning permit and construction works commencement permit for this project. The land use rights for the project were granted for commercial and service uses.

Chengdu Jiurong Real Estate Development Co., Ltd. obtained the land use rights certificate for this project in October 2007. Our wholly owned subsidiary, Chengdu Jiurong Real Estate Development Co., Ltd., entered into equity transfer agreements with an Independent Third Party in June 2008 and September 2008 pursuant to which Chengdu Jiurong Real Estate Development Co., Ltd. acquired 100% equity interest in Chengdu Jiurong Real Estate Development Co., Ltd. from such Independent Third Party. We hold a 100% interest in this project.

Pearl River Delta Region — Shenzhen

Shenzhen Endless Blue (深圳碧雲天)

Shenzhen Endless Blue (深圳碧雲天), our first completed project, is a residential community of eleven 9- to 16-storey apartment buildings located on Xiameilin Road and North Ring in Futian District, Shenzhen, Guangdong Province. It is located in a well-established residential area with easy access to public transportation. It occupies a total site area of approximately 11,944 square meters with a total completed GFA of approximately 50,696 square meters. Commenced in April 1998, the project was completed in January 2000. The project was developed by Shenzhen Xingyan Investment Development Co., Ltd., a project company in which we held 52% equity interest. The land use rights for the project were granted for residential purposes. Based on relevant construction works planning permit, we were allowed to develop residential and ancillary commercial properties for this project. We obtained the land use rights for the project through cooperatively developing the project with an independent third party that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>
Total saleable GFA (in square meters)	42,189	941
Number of units	464	8
Total GFA sold (in square meters)	42,189	941
Total GFA retained for investment (in square meters)	—	—

The project also includes 177 car parking spaces which are not included in the total saleable GFA of the project. Shenzhen does not have a public registration system for property rights in car parking spaces and therefore, in practice, car parking spaces are not saleable in Shenzhen and we intend to retain these car parking spaces for investment. We are, however, currently involved in a civil complaint relating to the 177 car parking spaces in the project. For additional information, see “— Legal Proceedings.”

Fairy Land (芳鄰)

Fairy Land (芳鄰) is a 27-storey residential and commercial project located on Renmin North Road, Luohu District, Shenzhen, Guangdong Province. It is located in a well-established residential area with easy access to public transportation and close to various banks, hospitals, schools, shopping malls and a public park. The project occupies a total site area of approximately 1,481 square meters with an aggregate completed GFA of approximately 16,976 square meters. Commenced in February 2000, the project was completed in September 2001. The project was developed by Shenzhen Xingyan Investment Development Co., Ltd., a project company in which we held 52% equity interest. The land use rights for the project were granted for residential and commercial purposes. We obtained the land use rights for the project through cooperatively developing the project with an independent third party that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>
Total saleable GFA (in square meters)	14,038	1,154
Number of units	288	28
Total GFA sold (in square meters)	14,038	769
Total GFA retained for investment (in square meters)	–	385

Hailrun Complex (喜年中心)

Hailrun Complex (喜年中心) is a 28-storey commercial office building located on Shennan Boulevard in Futian District, Shenzhen, Guangdong Province. The area surrounding the project is called the “western central district” of Shenzhen, which is a rising business and commercial center that has attracted a large number of private enterprises. The project has a modern design and won the Superior Quality Project Award (深圳市優質工程獎) issued by the Shenzhen Construction Industry Association (深圳市建築業協會) in 2003. The project occupies a total site area of approximately 4,907 square meters, with an aggregate completed GFA of approximately 51,659 square meters. Commenced in September 2001, the project was completed in February 2003. The project was developed by Shenzhen Xingyan Investment Development Co., Ltd., a project company in which we held 52% equity interest. The land use rights for the project were granted for commercial office use. We obtained the land use rights for the project through cooperatively developing the project with an independent third party that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Office</u>	<u>Commercial</u>
Total saleable GFA (in square meters)	38,569	5,384
Number of units	398	9
Total GFA sold (in square meters)	34,489	5,341
Total GFA retained for investment (in square meters)	–	43
Total GFA retained for self use (in square meters)	4,080	–

We have kept the remaining unsold office units with a total saleable GFA of 4,080 square meters as our own office space. The project also includes 200 car parking spaces which are not included in the total saleable GFA of the project. Shenzhen does not have a public registration system for property rights in car parking spaces and therefore, in practice, car parking spaces are not saleable in Shenzhen and we have retained these car parking spaces for investment purposes.

Shenzhen Pair Life (深圳錦上花)

Shenzhen Pair Life (深圳錦上花) is a 33-storey residential project located at Wenjindu in Luohu District, Shenzhen, Guangdong Province. It is located very close to the border between Hong Kong and Shenzhen and adjacent to the Wenjindu border control station and therefore appeals to buyers from both Hong Kong and Shenzhen. The project occupies a total site area of approximately 4,501 square meters with an aggregate completed GFA of approximately 49,595 square meters. Commenced in January 2002, the project was completed in November 2003. The project was developed by Shenzhen Xingyan Investment Development Co., Ltd., a project company in which we held 52% equity interest. The land use

rights for the project were granted for residential and commercial purposes. We obtained the land use rights for the project through cooperatively developing the project with an Independent Third Party that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>
Total saleable GFA (in square meters)	38,608	2,012
Number of units	610	4
Total GFA sold (in square meters)	38,472	777
Total GFA retained for investment (in square meters)	–	1,235

The project also includes 191 car parking spaces which are not included in the total saleable GFA of the project. Shenzhen does not have a public registration system for property rights in car parking spaces and therefore, in practice, car parking spaces are not saleable in Shenzhen and we have retained these car parking spaces for investment purposes.

Self Life (趣園)

Self Life (趣園) is a 24-storey residential project located at Fuhua Road and Binhe Road, adjacent to the south-east of Shenzhen Golf Court in Futian District, Shenzhen, Guangdong Province. It is adjacent to Shenzhen Convention & Exhibition Center in the central business district of Shenzhen and has panoramic view of a golf course. The project was awarded as the Shenzhen High Quality Structural Engineering Prize in 2003 (2003下半年度深圳市優質結構工程獎) and the Golden Bull Prize in 2005 (2005年度金牛獎), one of the most prestigious awards in the real estate industry in Shenzhen, both awarded by the Shenzhen Construction Industry Association (深圳市建築業協會). The project occupies a total site area of approximately 3,394 square meters with an aggregate completed GFA of approximately 19,035 square meters. Commenced in June 2003, this project was completed in June 2004. The project was developed by Shenzhen Xingyan Investment Development Co., Ltd., a project company in which we held 52% equity interest. The land use rights for the project were granted for residential purposes. Based on relevant construction works planning permit, we were allowed to develop residential and ancillary commercial properties. We obtained the land use rights for the project through cooperatively developing the project with two independent third parties that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial⁽¹⁾</u>
Total saleable GFA (in square meters)	13,860	1,252
Number of units	242	–
Total GFA sold (in square meters)	13,457	–
Total GFA retained for investment (in square meters)	231	1,252

Note:

(1) We retained such commercial unit for our club house.

The project also includes 100 car parking spaces which are not included in the total saleable GFA of the project. Shenzhen does not have a public registration system for property rights in car parking spaces and therefore, in practice, car parking spaces are not saleable in Shenzhen and we have retained these car parking spaces for investment purposes.

Shenzhen My Place (深圳花好園)

Shenzhen My Place (深圳花好園) is a residential community of five 29- to 32-storey apartment buildings located at Xiasha Village, South Binghe Road in Futian District, Shenzhen, Guangdong Province. It is on the border of the west central district of Shenzhen and Red-Tree Bay residential area and has easy access to public transportation. The project won various awards and recognition in 2004, including as a Top Ten Original Design Properties in Shenzhen (中國深圳十大創新設計樓盤) according to the International Think Tank Forum Organization Committee (全球腦庫論壇組委會), Top Ten Gold Medal Champion Properties (十大金牌冠軍樓盤) according to the Chinese Olympic Committee

(Shenzhen) News Center (中國奧委會(深圳)新聞中心) and Top Ten Leisure and Health Community (十大健康休閒社區) according to the China Architectural Culture Center under the MOC (建設部中國建築文化中心). The project occupies a total site area of approximately 13,162 square meters with an aggregate completed GFA of approximately 94,956 square meters. Commenced in January 2004, the project was completed in November 2005. The project was developed by Shenzhen Xingyan Investment Development Co., Ltd., a project company in which we held 52% equity interest. The land use rights for the project were granted for residential and commercial purposes. We obtained the land use rights for the project through cooperatively developing the project with an independent third party that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>
Total saleable GFA (in square meters)	69,499	13,450
Number of units	1,466	41
Total GFA sold (in square meters)	69,499	2,350
Total GFA retained for investment (in square meters)	–	11,100

The project also includes 200 car parking spaces which are not included in the total saleable GFA of the project. Shenzhen does not have a public registration system for property rights in car parking spaces and therefore, in practice, car parking spaces are not saleable in Shenzhen and we have retained these car parking spaces for investment purposes.

Flower Harbor (花港家園)

Flower Harbor (花港家園) is a 33-storey residential building with a 2-storey skirt building located on Mingzhu Avenue and Yong'an North Road in Yantian District, Shenzhen, Guangdong Province. It is located within the Yantian Harbor area which is currently in its third phase of expansion to develop an international warehousing and logistics center. We believe the growing shipping, warehousing and other logistics business in the Yantian Harbor area will result in significant growth in population and greater demand for properties in the area. Flower Harbor (花港家園) has a sea view and is surrounded by mountains. The project occupies a total site area of approximately 5,335 square meters with an aggregate completed GFA of approximately 27,033 square meters. Commenced in June 2007, the project was completed in December 2008. The project was developed by Shenzhen Zhifu Real Estate Investment Development Co., Ltd., our wholly owned project company. We held a 100% interest in the project. The land use rights for the project were granted for residential and commercial purposes. We obtained the land use rights for the project through acquisition of a project company that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>
Total saleable GFA (in square meters)	20,179	2,223
Number of units	440	43
Total GFA sold (in square meters)	20,179	621
Total GFA pre-sold (in square meters)	4,308	608
Total GFA retained for investment (in square meters)	–	–

The project also includes 145 car parking spaces which are not included in the total saleable GFA of the project. Shenzhen does not have a public registration system for property rights in car parking spaces and therefore, in practice, car parking spaces are not saleable in Shenzhen and we have retained these car parking spaces for investment purposes.

Shenzhen Future Plaza (深圳香年廣場)

Shenzhen Future Plaza (深圳香年廣場) is located to the north of Qiaocheng Road and to the northwest of Overseas Chinese Town East Industrial Zone in Nanshan District, Shenzhen, Guangdong Province. The location's surrounding area is part of the bigger Overseas Chinese Town which has been zoned for residential, tourism and high-tech businesses. The project was awarded the 2008 Real Estate Design Award of Golden Brick for Real Estate of China (中國地產金磚獎2008年度地產設計大獎) by

Boao 21st Century Real Estate Forum (博鰲21世紀房地產論壇), 21st Century Economy Review (21世紀經濟報導), and the Shenzhen Innovative Space Design Award (深圳創新空間設計獎) in 2008, by Boao 21st Century Real Estate Forum (博鰲21世紀房地產論壇), 21st Century Economy Review (21世紀經濟報導), Shenzhen Economic Daily (深圳商報) and Hong Kong Commercial Daily (香港商報), respectively. The project is comprised of two 20-storey main buildings and two two- to eight-storey attached buildings in a simple and modern style. The project occupies a total site area of approximately 15,145 square meters with an aggregate completed GFA of approximately 74,348 square meters. Commenced in March 2007, the project was completed in October 2008. The project was developed by Shenzhen Kangnian Technology Co., Ltd. (“Shenzhen Kangnian”), a project company in which we used to own a majority equity interest and currently own 100% equity interest. Shenzhen Kangnian holds a 100% interest in the project. The land use rights for the project were granted for industrial purposes. We obtained the land use rights for the project through establishing a joint venture project company with an independent third party that held the land use rights. Details of the project as of March 31, 2010 are set forth below:

	<u>Industrial⁽¹⁾</u>
Total saleable GFA (in square meters)	60,590
Number of units	170
Total GFA sold (in square meters)	53,467
Total GFA pre-sold (in square meters)	2,578
Total GFA retained for investment (in square meters)	–

Note:

- (1) *The land use rights for the projects were granted for industrial purposes, and the respective land use rights certificates state that the buildings are for “Industrial Workshop (Production Research and Development)” use. Accordingly, the sales contracts between us and our customers at Shenzhen Future Plaza (深圳香年廣場) stipulated that the buildings were for industrial production use. Once a property has been sold by us and the legal title to the property vests in the owner, we are unable to control or restrict the use made by the owner of the property. We are not liable if a customer uses a property purchased from us for a purpose that does not conform to the purpose stated on the relevant land use rights certificate. In the event that customers purchase and use such properties as office space, so long as such use conforms to the use of the building as stated in the respective land use rights certificates, the use is legal. In addition, certain portion of the project is used as retail shops by our customers to service the needs of other property users in the project.*

The project also includes 336 car parking spaces which are not included in the total saleable GFA of the project. Shenzhen does not have a public registration system for property rights in car parking spaces and therefore, in practice, car parking spaces are not saleable in Shenzhen and we have retained these car parking spaces for investment purposes.

Shenzhen Love Forever (深圳花郡)

Shenzhen Love Forever (深圳花郡) is designed to be a residential community project comprised of eight 20- to 27-storey apartment buildings with a modernist style. The project is located at Xincheng Avenue, Bao’an District, Shenzhen, is within walking distance to Bao’an Sports Center and has easy access to public transportation. The project occupies a total site area of approximately 23,955 square meters with a planned aggregate GFA of approximately 132,336 square meters. The construction of this project was commenced in October 2008 and the southern area is expected to be completed in October 2010 with the northern area expected to be completed in April 2011. The project is divided into a northern area, which is also named as Hua Xiang Jia Yuan (花鄉家園), with two 25-storey and two 20-story buildings and a southern area, which is also named as Hua Jun Jia Yuan (花郡家園), with one 27-story and three 20-storey buildings. Both areas of this project are being developed by Shenzhen Xingyan Investment Development Co., Ltd., a project company in which we own 52% equity interests. Shenzhen Xingyan Investment Development Co., Ltd. holds a 100% interest in the project. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Commercial</u>
Total planned saleable GFA (in square meters)	91,745	8,696
Number of units	2,280	133
Total GFA pre-sold (in square meters)	46,117	–

The project also includes 1,034 car parking spaces which are not included in the total saleable GFA of the project. Shenzhen does not have a public registration system for property rights in car parking spaces and therefore, in practice, car parking spaces are not saleable in Shenzhen and we have retained these car parking spaces for investment purposes.

As of March 31, 2010, we had obtained all land use rights certificates for the project and the pre-sale permit for the southern area. The land use rights for the project were granted for residential purposes. Based on relevant construction works planning permit, we were allowed to develop residential and ancillary commercial properties for this project. We obtained the land use rights for the project through cooperatively developing the project with an Independent Third Party that held the land use rights.

Shenzhen Meinian Plaza (深圳美年廣場)

Shenzhen Meinian Plaza (深圳美年廣場) includes five 11- to 13-story buildings located on Chuangye Road in Nanshan District, Shenzhen, Guangdong Province. It is located in the commercial-cultural zone of Nanshan District, Shenzhen which includes nature, ecology and commerce. The project occupies a total site area of approximately 29,546 square meters with an aggregate completed GFA of approximately 87,638 square meters. The total saleable GFA is approximately 73,466 square meters.

Commenced in May 2007, the project was completed in August 2009. As of March 31, 2010, we had obtained the land use rights certificate. The land use rights for the project were granted for industrial purposes.

Shenye Pengji (Group) Co., Ltd., an independent third party, had obtained the land use rights certificate in January 2007. In December 2009, Fantasia Group (China) Co., Ltd., one of our wholly-owned subsidiaries, entered into an asset transfer agreement with Shenye Pengji (Group) Co., Ltd. pursuant to which Fantasia Group (China) Co., Ltd. obtained a 100% interest in the project.

Shenzhen Funian Plaza (深圳福年廣場)

Shenzhen Funian Plaza (深圳福年廣場) is located in Shenzhen Futian Free Trade Zone, which has an easy access to the transportation network around Huanggang Border and Guangzhou-Shenzhen Expressway. The project occupies a total site area of approximately 18,718 square meters with a planned total GFA of approximately 67,908 square meters. The project is expected to have an aggregate saleable GFA of approximately 46,795 square meters. It is also expected to include 407 car parking spaces which are not included in the total saleable GFA of the project. The construction of the project is expected to be commenced in June 2010 and completed in June 2011. The project is expected to be developed by Shenzhen Huiheng Real Estate Co., Ltd. (“Shenzhen Huiheng”), a project company in which we own 100% equity interest through our wholly owned subsidiary Shenzhen Kangnian. Shenzhen Huiheng holds a 100% interest in the project. The land use rights for this project were granted for warehouse purposes. We obtained the land use rights for the project through acquisition of a project company that held the land use rights in September 2009.

Pearl River Delta Region — Outside Shenzhen

Dongguan Mont Conquerant (東莞君山)

Dongguan Mont Conquerant (東莞君山) is located at Huanggouluo Huangkeng Village, Liaobu Town, Dongguan, Guangdong Province, which is adjacent to the Fengjing Golf Course and enjoys view of Huying Park and Huangqi Hill. The project is expected to be a large scale residential community comprised of seventeen low rise buildings and ten 18- to 32-storey buildings and a clubhouse. The project occupies a total site area of approximately 52,853 square meters with a planned GFA of approximately 142,928 square meters. The project is divided into two phases, both of which are being, or are expected to be, developed by Dongguan Fantasia Real Estate Investment Co., Ltd., our wholly owned project company. We hold a 100% interest in the project. We had obtained the land use rights certificate for both phases of the project. The land use rights for the project were granted for residential and commercial purposes. We obtained the land use rights for the project through acquisition of the entire project from an independent third party that held the land use rights.

Phase I of the project is expected to be comprised of seventeen 3-storey buildings. Phase I has a planned GFA of approximately 19,945 square meters. Commenced in June 2009, construction of Phase I is expected to be completed in March 2010. As of December 31, 2009, we had obtained the pre-sale permit for certain portion of the residences and have begun pre-sale in July 2009. Details of Phase I of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>
Total planned saleable GFA (in square meters)	19,885
Number of units.	41
Total GFA pre-sold (in square meters)	18,095
Total GFA retained for investment (in square meters)	–

Phase II of the project is expected to be comprised of ten 18- to 32-storey buildings with a total planned GFA of approximately 122,983 square meters, including an aggregate of saleable GFA of approximately 71,024 square meters for residences and approximately 25,990 square meters for basement area, most of which we intend to retain for car parking spaces. Phase II of the project was commenced in September 2009 and is expected to be completed in June 2011. As of March 31, 2010, we had also obtained the construction works commencement permit for Phase II. We plan to begin pre-sale in October 2010.

Huizhou Endless Blue (惠州碧雲天)

Huizhou Endless Blue (惠州碧雲天) is expected to be a residential community located in Huangyuyong, Daya Bay, Huizhou, Guangdong Province. It is linked by several roads to the city center of Daya Bay and the petroleum and chemical industrial zone of Huizhou. The project is designed to be comprised of eleven 24- to 30-storey buildings. The project occupies a total site area of approximately 35,000 square meters with a planned GFA of approximately 168,545 square meters. It is planned to have an aggregate saleable GFA of 132,277 square meters for residences, 4,644 square meters for commercial use. The project is also expected to include 1,003 car parking spaces which are not included in the total saleable GFA approximately 18,665 square meters for car parking spaces. Construction of the project is expected to commence in December 2010 and completed in December 2012. The project is expected to be developed by Huizhou Daya Bay Huawanli Industry Co., Ltd., our wholly owned project company. We hold a 100% in the project.

As of March 31, 2010, we had obtained the land use rights certificate and construction land planning permit for this project. The land use rights for the project were granted for residential and commercial purposes. We obtained the land use rights for the project through government-organized listing-for-sale.

Huiyang Project (惠陽項目)

Huiyang Project (惠陽項目) is located to the east of Huinan Avenue in Huiyang, Huizhou, Guangdong Province. It is adjacent to Huiyang bus terminus and is within walking distance to Danshui central business areas. The project occupies a total site area of approximately 172,000 square meters with a planned total GFA of approximately 586,000 square meters. The project is expected to have an aggregate saleable GFA of 510,205 square meters with approximately 486,205 square meters for residences and approximately 24,000 square meters for commercial use. It is also expected to include 2,040 car parking spaces which are not included in the total saleable GFA of the project. Construction of Phase I of the project is expected to be commenced in September 2010 and completed in December 2011. The project is expected to be developed by Huizhou Huiyang Huaqianli Industry Co., Ltd., our wholly owned project company. Huizhou Huiyang Huaqianli Industry Co., Ltd. holds a 100% interest in the project. We had obtained the land use rights certificate for the project and the land use rights were granted for comprehensive purposes including for residential and commercial use. We obtained the land use rights for the project through government-organized listing-for-sale in September 2009.

Yangtze River Delta Region

Town on the Water (雲海間)

Town on the Water (雲海間) is expected to be a low density community of upscale residences located in Lianyi Village, Xizhu Town, Yixing, a county-level city in Wuxi, Jiangsu Province. It is adjacent to the Hengshan Reservoir which is one the six largest reservoirs in Jiangsu Province and a new tourist attraction in the Yangtze River Delta area. It is located about 15 kilometers away from the Nanjing-Hangzhou expressway and is within two hours drive to major cities in the surrounding region such as Shanghai, Nanjing and Hangzhou.

The project occupies a total site area of approximately 66,664 square meters with a planned aggregate GFA of approximately 41,432 square meters. The project is expected to be comprised of 71 upscale low rise buildings with a total saleable GFA of approximately 22,602 square meters and four hotel buildings with a total saleable GFA of approximately 17,990 square meters. The project is developed by Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd., a project company in which we hold a 60% equity interest. Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd. holds a 100% interest in the project. We had obtained the land use rights certificate for the project. The land use rights for the project were granted for comprehensive purposes including residential and commercial use. We obtained the land use rights for the project through acquisition of a project company that held the land use rights.

Commenced in November 2007, construction of the project is expected to be completed in June 2010. As of March 31, 2010, we had obtained the required construction works commencement permit for the project and had obtained the pre-sale permit for certain portion of the project with respect to which we begun pre-sale in November 2008. Details of the project as of March 31, 2010 are set forth below:

	<u>Residential</u>	<u>Hotel</u>
Total planned saleable GFA (in square meters)	22,602	17,990
Number of units	71	276
Total GFA pre-sold (in square meters)	7,920	–
Total GFA sold (in square meters)	9,515	–
Total GFA retained for hotel management (in square meters)	–	7,095

Of all the saleable GFA of this project, we intend to retain approximately 7,095 square meters for investment.

Suzhou Taihu Project (蘇州太湖項目)

Suzhou Taihu Project is expected to be a large scale, low density residential community located in the Suzhou Taihu National Tourism Vacation Zone (蘇州太湖國家旅遊度假區), a famous tourist attraction in Suzhou, Jiangsu Province. This project enjoys exceptional natural surroundings. The project is adjacent to the Suzhou Cultural Forum, Golf Course and Yacht Club. The project occupies a total site area of approximately 379,635 square meters with a planned aggregate GFA of approximately 533,121 square meters. The total saleable GFA is approximately 533,121 square meters.

As of March 31, 2010, we had obtained the land use rights certificate. The land use rights for the project were granted for residential purposes. We obtained the land use rights for the project through the acquisition of two project companies, Suzhou LKN Real Estate Development Co., Ltd. and Suzhou Huawanli Real Estate Development Co., Ltd., both of which were independent third parties.

Wuxi Project (無錫項目)

Wuxi Project is located at Jincheng Road and Chunyang Road in Wuxi, Jiangsu Province. The project borders on Wuxi's new district, which is expected to undergo considerable growth to become a prosperous urban center. The project occupies a total site area of approximately 123,670 square meters with a planned aggregate GFA of approximately 222,606 square meters. The total saleable GFA is approximately 219,206 square meters, of which a total GFA of approximately 176,643 square meters is

for residential purposes and approximately 42,566 square meters for commercial purposes. The project was developed by Fantasia Wuxi Real Estate Development Co., Ltd., a project company in which we hold 100% equity interest.

We obtained the land use rights for the project through a government-organized listing-for-sale process. The land use rights for the project were granted for residential and commercial purposes. As of March 31, 2010, we had signed land grant contract with the Land and Resources Department of Wuxi (無錫市國土資源局).

Beijing-Tianjin metropolitan region — Tianjin

Tianjin Hailun Plaza (天津喜年廣場)

Tianjin Hailun Plaza (天津喜年廣場) is expected to be an urban complex. The centerpiece of the project is expected to be five high-rise buildings of 19- to 30-storey. The project is located on Jiefang South Road, Jinnan District, Tianjin. The project occupies a total site area of approximately 21,410 square meters with a planned total GFA of approximately 131,341 square meters. The project is divided into several phases, all of which are being, or expected to be, developed by Tianjin Songjiang-Fantasia Real Estate Co., Ltd., a project company in which we own 60% equity interest. Tianjin Songjiang-Fantasia Real Estate Co., Ltd. holds a 100% interest in the project. We had obtained the land use rights certificate for all phases of the project. The land use rights for the project were granted for general construction purpose including for office spaces and commercial use. We obtained the land use rights for the project through acquisition of the entire project from an independent third party that held the land use rights.

Phase I of the project is comprised of two 19- to 20-storey buildings with a planned total GFA of approximately 48,547 square meters. Commenced in September 2008, construction of Phase I is expected to be completed in June 2010. As of March 31, 2010, we had obtained the construction works commencement permit for Phase I. We had also obtained the pre-sale permit for this phase.

Details of Phase I of the project as of March 31, 2010 are set forth below:

	<u>Office</u>	<u>Commercial</u>
Total saleable GFA (in square meters)	25,935	1,011
Number of units	502	8
Total GFA pre-sold (in square meters)	25,673	—
Total GFA retained for investment (in square meters)	—	—

In addition, Phase I of the project is expected to include 900 car parking spaces that are non-saleable and we also intend to retain these non-saleable car parking spaces for investment.

Phase II of the project has a planned GFA of 82,794 square meters. It is expected to have an aggregate saleable GFA of 26,365 square meters for residences and approximately 25,732 square meters for office spaces. It was commenced in September 2008 and is expected to be completed in June 2011. As of March 31, 2010, we had obtained the construction works commencement permit and all pre-sale permits for Phase II.

Yingcheng Lake (營城湖)

Yingcheng Lake (營城湖) is expected to be a residential community located to the south of Yingcheng Reservoir, Hangu District, Tianjin. The project is located within the New Coastal Area of Tianjin, which is a national level key development area in Tianjin, and is further within the sub-area of the New Coastal Area designated for leisure and tourism purposes. We believe the project may have a great prospect for value appreciation as an increasing number of tourist attractions and facilities are planned in the surrounding area. The project occupies a total site area of approximately 100,000 square meters with a planned total GFA of approximately 168,339 square meters, including an aggregate saleable GFA of approximately 62,585 square meters for residences, approximately 60,486 square meters for office

spaces and approximately 16,121 square meters for commercial use. The project is expected to be developed by Tianjin Fuda Property Transaction Co., Ltd., our wholly owned project company. We will hold 100% interest in the project.

As of March 31, 2010, we had obtained the land use rights certificate for the project, but have not obtained the other certificates and permits required for the project. The land use rights for the project were granted for residential, commercial, service and tourism purposes. We obtained the land use rights for the project through acquisition of a project company that held the land use rights. We are currently working on the general design and planning of the project.

Dali Project (大理項目)

Dali Project is located at North Tai'an Bridge, Dali, Yunnan Province, which is the political, economic and cultural center of Dali and where the provincial and municipal governments are located. The project occupies a total site area of approximately 9,213 square meters with a planned aggregate GFA of approximately 64,488 square meters. The total saleable GFA is approximately 64,488 square meters. We obtained the land use rights for the project through government-organized listing-for-sale. The land use rights for the project were granted for residential and commercial purposes. We hold a 100% interest in the project. As of March 31, 2010, we had signed a confirmation letter with the Land Storage and Exchange Center of Dali (大理市土地收購儲備交易中心).

Potential New Property Development Projects

In addition to our existing property development projects, we are actively exploring opportunities for additional property development projects in China. We have entered into preliminary framework agreements with the local government authorities or relevant third parties related to certain potential new projects but have not yet entered into any further agreements and have not obtained relevant land use rights certificates for such projects. Commerce & Finance Law Offices, our PRC legal counsel, has advised us that, as of March 31, 2010, before we were able to obtain the relevant land use right certificates, we were still required by the relevant PRC laws and regulations (i) in respect of our Pixian and Yunnan projects, to successfully complete the public tender, auction or listing-for-sale process, enter into a land grant contract and pay relevant land grant premium; (ii) in respect of our Beijing Tongzhou project, to enter into and perform our obligations under a formal share transfer agreement and duly complete registration procedures for such transfer of equity ownership with the relevant government authorities; and (iii) in respect of our Suzhou Taihu Hotel Project, to invest at least 25% of the total capital required for the project or fulfill such other conditions as may be determined by the relevant government authorities of Suzhou and, where necessary, complete the required listing-for-sale and public notice procedures on the basis that project is currently a state-owned asset. In April 2010, we entered into a framework agreement to purchase 100% of the equity interests in Shenzhen Gaohua Investment Limited, which holds certain parcels of land in Guilin City. Completion of such acquisition is conditional upon fulfillment of a number of conditions, including, among others, completion of necessary procedures for Shenzhen Gaohua Investment Limited to have legal ownership in each of the project companies holding the relevant parcels of land in Guilin City and the underlying land use rights and obtaining corporate and other approval for such acquisitions. We can not assure you that we will obtain any land use rights or any or all of the requisite governmental approvals for the development of these potential new projects. For more details on the risks associated with these potential new projects, please see "Risk Factors — Risks Relating to Our Business — We have entered into several preliminary framework agreements for potential new property development projects which are subject to significant risks and uncertainties" and "Our results of operations may be materially and adversely affected if we fail to obtain, or there are material delays in obtaining, requisite governmental approvals for our property developments" in this offering memorandum. Because these potential new property development projects

are still at a very preliminary stage, we are not able to estimate the total development costs or set target completion dates for these potential new projects yet. The following table sets forth relevant information of our potential new projects as of March 31, 2010:

Potential New Property Development Projects	Site Area (in square meters)	Total GFA Completed (in square meters)	Total GFA Under Development (in square meters)	Total GFA for Future Development (in square meters)	Total Planned GFA (in square meters)	Total Planned Saleable GFA (in square meters)	Expected Interest in the Project
Chengdu:							
Pixian Project							
(郫縣項目)	979,333	–	–	3,917,332	3,917,332	3,917,332	100%
Suzhou:							
Suzhou Taihu Hotel Project							
(蘇州太湖酒店項目)	70,317	–	–	56,254	56,254	n/a	100%
Yunnan:							
Yunnan Project							
(雲南項目)	996,531	–	–	996,531	996,531	996,531	100%
Beijing:							
Beijing Tongzhou Project							
(北京通州項目)	8,219	–	–	55,000	55,000	n/a	100%
Total	<u>2,054,400</u>			<u>5,025,117</u>	<u>5,025,117</u>		

Pixian Project (郫縣項目)

In April 2007, Fantasia Group (China) Co., Ltd. and Tianjin Songjiang Group entered into a framework agreement with the People’s Government of Pixian County (郫縣人民政府) (the “Pixian Government”) relating to the development of the Wangcong Ancient Sichuan Culture Park (望叢古蜀文化產業園) located in Pixian County, Chengdu, Sichuan Province. Under the framework agreement, we were in charge of preparing overall plans and detailed designs of the culture park pursuant to the guidelines set by the Pixian Government. Pixian Government was expected to further enter into a cooperative agreement with us for the development of the culture park after it approved the overall plans and detailed designs prepared by us. We had submitted draft plans to the Pixian Government. Upon the initial approval of our draft plan granted by the Pixian Government, in September 2009, Fantasia Group (China) Co., Ltd. further entered into a cooperative agreement with the local government in relation to the detailed design, arrangement and improvement for parcels of land for the culture park and its ancillary facilities. Pursuant to the agreement, the local government agreed, among other things, to grant parcels of state-owned land in three years from 2010 to 2013 to developers through procedures in accordance with applicable laws and regulations. These parcels of land are expected to occupy an aggregate site area of approximately 979,333 square meters. We are eligible and intend to acquire such lands for our Pixian Project through the relevant procedures. As of March 31, 2010, the project had commenced and the land clearance was underway. We expect the project to have an estimated aggregate saleable GFA of approximately 3,917,332 square meters. As of March 31, 2010, we had not obtained any land use rights or entered into any land grant contract with the local government for the Pixian Project.

Yunnan Project (雲南項目)

In June 2009, Fantasia Group (China) Co., Ltd., our subsidiary, entered into an agreement with the Administrative Committee of the Dali Provincial Tourism and Vacation Zone (大理省級旅遊度假區管理委員會) for the development of the Dali Bai Ethnic Culture Resort (大理白族民俗文化度假村) (the “Yunnan Project”), which will be located near Butterfly Spring (蝴蝶泉), a famous tourist attraction, in Dali, Yunnan Province. Under the agreement, we will be responsible for the feasibility study,

environmental impact assessment, overall planning and designs and will bear the costs of certain infrastructure construction of the resort. In September 2009, Fantasia Group (China) Co., Ltd. entered into a cooperative agreement with the local government relating to the detailed design, arrangement and improvement for parcels of land for the Dali Provincial Tourism and Vacation Zone (大理白族民俗文化度假村) its ancillary facilities. Pursuant to the agreement, the local government agreed, among other things, to grant parcels of state-owned land in three years from 2010 to 2013 to developers through procedures in accordance with applicable laws and regulations. We are eligible and intend to acquire such lands for our Yunnan Project through the relevant procedures. We expect the project to occupy a total site area of approximately 996,531 square meters with an estimated aggregate saleable GFA of approximately 996,531 square meters. As of March 31, 2010, the land clearance was underway and conceptual planning and design had been submitted to local governmental authority. We had not, as of March 31, 2010, obtained any land use rights or entered into any land grant contract with the local government for the Yunnan Project. If we are successful in acquiring the land, we will apply for the requisite governmental approvals for the development for this project.

Beijing Tongzhou Project (北京通州項目)

In August 2009, Fantasia Group (China) Co., Ltd., our subsidiary, entered into a share transfer framework agreement with two individual independent third parties in connection with the transfer of their 100% equity interest in Beijing Taibo to Fantasia Group (China) Co., Ltd. at the total consideration of RMB150.0 million (US\$22.0 million). Upon the completion of the transfer, we will acquire the land use rights for certain parcels held by Beijing Taibo located at Xinhua Avenue, Tongzhou District, Beijing, which occupy a total site area of approximately 8,219 square meters with an estimated aggregate GFA of approximately 55,000 square meters. As of March 31, 2010, pre-construction evaluation and assessment of the project had commenced.

Suzhou Taihu Hotel Project (蘇州太湖酒店項目)

In January 2010, Fantasia Group (China) Co., Ltd., one of our wholly-owned subsidiaries, entered into an asset transfer framework agreement (the “Suzhou Agreement”) with Suzhou CITIC Investment Co., Ltd. (“Citic Suzhou”). Pursuant to the Suzhou Agreement, we and Citic Suzhou shall jointly develop this project on land Su Di 2005-B-54 2#, and this project, including the land use rights, shall be transferred to us when our investment in the project reaches 25% of the total investment required for the project or once we fulfill such other conditions as may be determined by the relevant government authorities of Suzhou and, where necessary, complete the required listing-for-sale and public notice procedures on the basis that the project is currently a state-owned asset. This project is located in the Suzhou Taihu National Tourism Vacation Zone, a famous tourist attraction in Suzhou, Jiangsu Province. The project occupies a total site area of approximately 70,317 square meters with a planned aggregate GFA of approximately 56,254 square meters. The land use rights for the project were granted for five-star hotel purposes.

Shenzhen Gaohua (深圳高華)

In April 2010, Fantasia Group (China) Co., Ltd., one of our wholly-owned subsidiaries, entered into a framework agreement with Shenzhen Zhongding Investment Development Limited (深圳市眾鼎投資發展有限公司) and Shenzhen Longgang Investment Development Limited (深圳市龍崗能企業有限公司). Pursuant to this agreement, Fantasia Group (China) Co., Ltd. agreed to purchase 100% of the equity interests in Shenzhen Gaohua Investment Limited (深圳市高華投資有限公司) (“Shenzhen Gaohua”). Upon completion of such acquisition, Fantasia Group (China) Co., Ltd. will be the indirect owner of certain parcels of land located in Guilin City that are held by Shenzhen Gaohua. The total consideration payable by Fantasia Group (China) Co., Ltd. under this agreement is RMB936 million (US\$137 million).

Our Business Segments

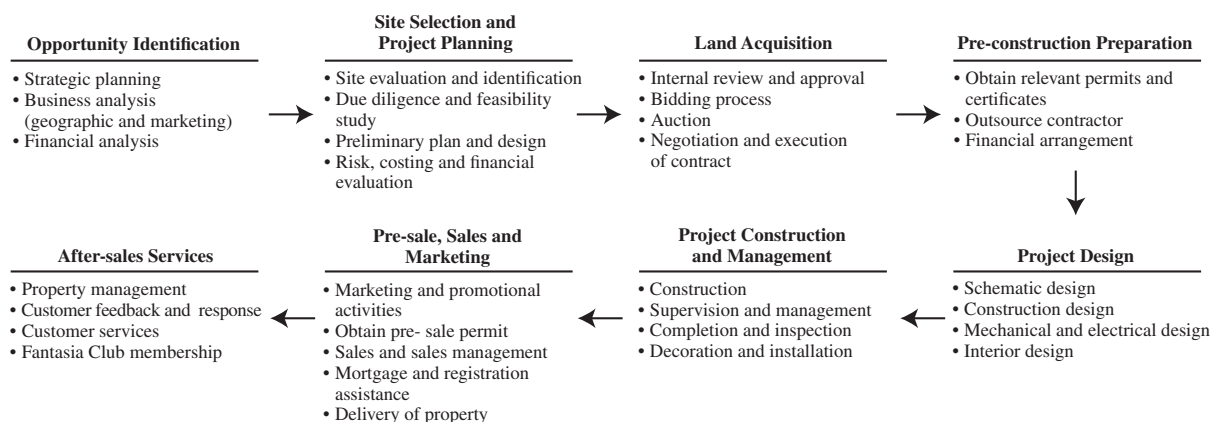
Our business includes (i) property development, (ii) property investment, (iii) property operation services, (iv) property agency services and (v) hotel services. Our property operation services include property management services, building equipment installation, maintenance and repair services, and information network services. Our property agency services include primary property agency services,

secondary property brokerage services, and property consulting and advisory services. Our hotel services include hotel management and operation services during the three year period ended December 31, 2009 and as of March 31 2010, we and our PRC subsidiaries were in possession of all of the relevant approvals and qualification certificates required under PRC laws and regulations in order to conduct our businesses.

Property Development

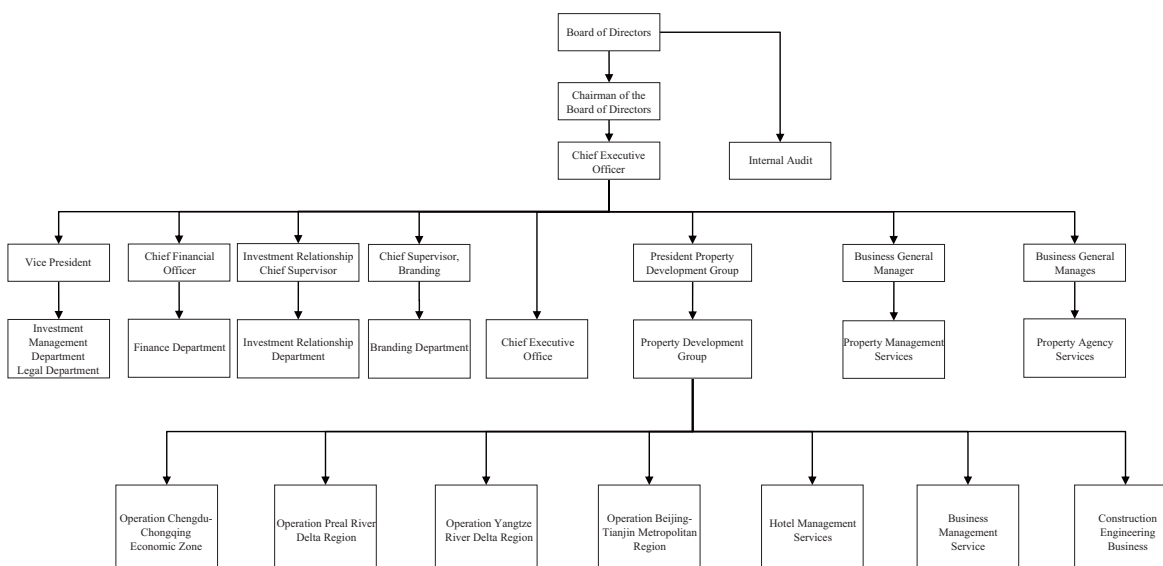
Overview

Although the nature and sequences of specific planning and execution activities will vary among our different property development projects, the core stages typically involved in the development of our properties include opportunity identification, site selection and project planning, land acquisition, pre-construction preparations, project design, project construction and management, pre-sale, sales and marketing, and provision of after-sales services, which are illustrated below:



Project Management

We have established project companies to supervise and manage our property development projects in different cities or regions in China that we believe will best allow us to address the unique market associated with such cities or regions. The senior management of our Group works closely with the senior management of each of our project companies to provide guidance as to the overall strategic directions of our Group as well as to supervise and oversee the activities of each of the project companies. We have recently changed the management structure of our group. The following chart illustrates the management structure of our Group as of April 1, 2010:



Our project companies have further established specialized divisions to supervise and manage the major stages of our property development activities. The divisions include the construction management division, market planning division, marketing management division, project budgeting division, finance management division and product design division. However, depending on the size and the type of projects, the specialized divisions between each project company may vary and for certain projects, the relevant market research, site selection and other pre-construction, design and construction decisions may be directly carried out by the senior management of the Group or through one of its divisions instead of by the project companies. Our project companies generally enjoy a certain level of autonomy in their daily business operating decisions without the prior approval of the Group's senior management. We believe such autonomy enhances our operating efficiency and allows us to optimize our capacities and resources as well as to leverage on the local knowledge of the management of each project company. However, major operating decisions, such as the purchase of land, the approval of projects for development and financing, are subject to the decision of the Group's senior management. We believe our management structure provides us with the ability to consolidate the resources of the Group to enhance our negotiating powers with certain suppliers and contractors, and facilitate the sharing of expertise among various projects in areas such as design, construction, marketing and sales.

Opportunity Identification

The first stage of our development process involves the identification of new opportunities for forthcoming land auctions or sales in strategic cities or regions in China. Our senior management and our business expansion and development division of our Group determine our strategic direction and our future project development plans. The business intelligence research and development department of our Group also conducts in-depth demographic and market research as to potential cities or regions in China into which we may consider entering. The selection criteria for suitable expansion opportunities are based on certain indicators, including, among others:

- population and urbanization growth rate;
- general economic condition and growth rate;
- disposable income and purchasing power of consumers;
- anticipated demand for residential and commercial properties and office spaces;
- availability of future land supply and land prices;
- cultural heritage of such city;
- local business environment and opportunities;
- availability of qualified personnel in such city or region and the willingness of our existing management personnel to relocate to such city or region;
- governmental urban planning and development policies; and
- overall competitive landscape.

Site Selection

We, through our property agency services subsidiary Xingyan Property Consultancy, as well as certain divisions of our property development business, are engaged in the research of property market conditions in the Pearl River Delta region, the Chengdu-Chongqing Economic Zone, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region in an effort to identify and assess potential property development opportunities. Before selecting a parcel of land for development, we engage in comprehensive and in-depth market research and analysis to evaluate the market potential and value of the areas surrounding the land and the development potential of the land. Key factors that are considered during our land selection include, but are not limited to:

- size, shape and location of the parcel;
- transportation access and availability of infrastructural support;
- prospects of economic development in the area, government income GDP and social, economic and environmental conditions of the area;
- demand for properties in the relevant area, including pricing potentials;
- existing and potential property developments in the area;
- convenience of the site, such as proximity to the city center, airport, subway and commercial facilities;
- suitability of the site for our products;
- cost, investment and financial return, including cash flow and capital appreciation;
- the status of the land use rights with respect to the targeted site if acquired in the secondary market; and
- government development plans for the relevant site and neighboring area.

Furthermore, during land selection, we also consult with the relevant local authorities as to how the development of the targeted land can fit within the overall development plan of the region, city or area in which the land is located.

Land Acquisition

We follow a strict procedure in the acquisition of properties. Prior to acquiring a property, our business intelligence research and development department, investment management department, legal department, financial management department and certain other departments must all review and approve such proposed acquisition. The proposed project, once vetted and approved by various departments and our chief executive officer, will be submitted to our board of directors for approval. If the proposed project is approved by the board of directors, we will then seek to acquire the land use rights within a pre-set budget.

We have historically obtained our land and will continue to obtain land through (i) acquisition of land use rights through government-organized tender, auction and listing-for-sale; (ii) establishing joint venture project companies; (iii) cooperatively developing projects with third parties; (iv) acquiring target companies which have acquired land use rights themselves; and (v) acquisition of projects under development from third party project companies, representing 60.1%, nil, 2.3%, 32.8% and 4.8%, respectively, of our land bank acquired in terms of GFA for which we had obtained relevant land use rights as of March 31, 2010. In both government bids and purchases in the secondary market, the purchase price typically includes all expenses required to deliver the land use rights.

The Rules regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有土地使用權規定) issued by the Ministry of Land and Resources (the “MLR”), revised on September 21, 2007 and renamed as the Rules regarding the Grant of State-Owned Construction Land Use Rights by Way of 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 came into force on November 1, 2007, provide that state-owned land use rights for commercial use, tourism, entertainment and commodity housing development may be granted by the government only through competitive bidding, auction or

listing-for-sale. If land use rights are granted by way of competitive bidding, the relevant land administration authority will issue a bidding announcement, inviting individuals, corporations and other organizations to participate in the tender. When deciding the grantee of the land use rights, the relevant authorities consider not only the tender price, but also the credit history and qualifications of the tenderer and the tender proposal. If land use rights are granted by way of auction, the relevant land administration authority will issue an auction announcement, and the bidders can, at a specified time and location, openly bid for the relevant parcel of land. If land use rights are granted by way of listing-for-sale, the relevant land administration authorities will announce the conditions for granting the land use rights at designated land transaction centers and bidders are invited to submit their bids in writing. The land use rights are granted to the bidder submitting the highest bid by the end of the listing-for-sale period. See “Regulatory Overview — Real Estate Development — Land for real estate development.”

Under current regulations, original grantees of land use rights are typically allowed to transfer the land use rights granted to them provided that (i) the assignment price payable to the relevant government authorities has been fully paid in accordance with the assignment contract and a land use rights certificate has been obtained; and (ii) development has been carried out according to the assignment contract and, (iii) in the case of a project under development, development representing more than 25% of the total investment has been completed. If the land use rights are obtained by way of allocation, such land may be transferable upon approval by the relevant government authority. See “Regulation” for further details. Under current PRC laws and regulations, property development should be started no later than one year from the project commencement date stipulated in the relevant land grant contract and the development of the land should not be suspended for more than one year before we have completed one-third of the total GFA and invested more than one-fourth of the total estimated investment of the project. See “Regulation.”

Under current PRC laws and regulations, we may also obtain land use rights through the acquisition of project companies that already hold the relevant land use rights. We have obtained land use rights through such method for the following projects: Flower Harbor (花港家園), Shenzhen Funian Plaza (深圳福年廣場), Fantasia Special Town (別樣城), Fantasia Town (花樣城), Chengdu Mont Conquerant (成都君山), Chengdu Future Plaza (成都香年廣場), Town on the Water (雲海間), Yingcheng Lake (營城湖) and Suzhou Taihu Project (蘇州太湖項目).

Pre-Construction

Permits and Certificates

Once we have obtained the rights to develop a parcel of land, we will then begin to apply for the various permits and license that we need in order to begin construction and sale of our properties, which includes:

- land use rights certificate, which is a certification of the right of a party to use a parcel of land;
- construction land planning permit, which is a permit authorizing a developer to begin the survey, planning and design of a parcel of land;
- construction works planning permit, which is a certificate indicating government approval for a developer’s overall planning and design of the project and allowing a developer to apply for a construction works commencement permit;
- construction works commencement permit, which is a permit required for commencement of construction; and
- pre-sale permit, which is a permit authorizing a developer to start the pre-sale of property still under construction.

As of March 31, 2010, we have obtained all the required land use rights certificates and permits for our existing properties under development, taking into account the respective stages of development at such date. In addition, we have obtained all land use rights certificates for our properties that are held for future development. We have also entered into preliminary framework agreements with the local

government authorities and relevant third parties related to four potential new projects located in Pixian County, Chengdu, Sichuan Province, Dali, Yunnan Province, Suzhou, Jiangsu Province and Tongzhou, Beijing. We expect to enter into additional agreements related to those four projects in order to obtain the land use rights certificates. In April 2010, we entered into a framework agreement to purchase 100% of the equity interests in Shenzhen Gaohua, which holds certain parcels of land in Guilin City. Completion of such acquisition is conditional upon fulfillment of a number of conditions, including, among others, completion of necessary procedures for Shenzhen Gaohua to have legal ownership in each of the project companies holding the relevant parcels of land in Guilin City and the underlying land use rights and obtaining corporate and other approval for such acquisitions.

Financing of Property Development

Our financing methods vary from project to project and are subject to limitations imposed by PRC regulations and monetary policies. We finance the acquisition of land reserves from internal funds, while our property development costs, including construction costs and additional financing for existing projects, are typically financed by internal funds and project loans from PRC banks. The following summarize our main financing methods for our projects:

- *Internal funds.* Our internal funds primarily comprise shareholder contributions such as the HK\$2,500.0 million (US\$322.4 million) raised in our IPO in November 2009 and the amount raised in connection with the pre-IPO investment. As of March 31, 2010, approximately 44.8% and 68.5% of the proceeds from our IPO and the pre-IPO investment, respectively, had been applied to increase our land banks in China. Our internal funds also include proceeds from pre-sale of properties, which are proceeds we receive when we enter into contracts to sell properties prior to their completion and that must be used for the construction of the particular project which has been pre-sold. Under relevant PRC regulations, we may engage in such pre-selling activities subject to satisfaction of certain requirements. See “— Pre-sale, Sales and Marketing.” We typically receive an initial payment of at least 30% of the purchase price at the execution of the pre-sale contracts and the balance typically within 30 days of the execution of the pre-sale contracts, by which time the customer is required to have obtained a bank mortgage. Proceeds from the pre-sale are typically used to repay borrowings as well as to fund the development of the project from that stage.
- *Borrowings.* As of December 31, 2009, we had total borrowings of RMB3,440.1 million (US\$504.0 million), of which RMB3,044.1 million (US\$445.9 million) was secured. We usually obtain project-specific borrowings that are secured by our properties under development and our land use rights, and usually repay the borrowings using a portion of our pre-sale proceeds of the specific property. Since June 2003, commercial banks in China have been prohibited under PBOC guidelines from granting loans to fund the payment of land premiums and for the development of luxury residential properties. In September 2007, the PBOC and the CBRC issued a notice prohibiting commercial banks in China from granting loans to a property development project before the project has obtained all necessary permits for the commencement of its construction. As a result, property developers may only use their own internal funds instead of borrowings from PRC banks to pay for land premiums and other costs incurred prior to obtaining all necessary permits for the commencement of the relevant projects. In addition, 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) promulgated by the CBRC on September 2, 2004, the internal capital ratio, calculated by dividing the internal funds available by the total project capital required for a project, of a property developer who intends to borrow from commercial banks shall be no less than 35%, an increase of five percentage points from 30%, as previously required. Furthermore, under guidelines jointly issued by the MOC and other PRC government authorities in May 2006, commercial banks in China may not lend funds to property developers with an internal capital ratio of less than 35%. However, on May 25, 2009, the State Council issued the Notice on Adjusting the Minimum Capital Requirement for Fixed Assets Investment (關於調整固定資產投資項目資本金比例的通知) and lowered the minimum capital requirement for projects of affordable residential housing and regular commodity residential houses from 35% to 20% and, for other property projects, to 30%. In July 2007, the General Department of SAFE also issued a circular to restrict a foreign

invested property developer's ability to raise capital through foreign debt. See "Regulations — Summary of PRC Laws Relating to the Property Sector — I. Legal Supervision Relating to the Property Sector in the PRC — F. Property Credit."

In the future, we expect to fund our projects by using a combination of sources, including internally generated cash flow, borrowings, and funds raised from the debt and capital markets from time to time. In particular, as of December 31, 2009, the total contracted capital commitment of our projects amounted to RMB1,060.4 million (US\$155.3 million). For details of the capital commitment we have made relating to our projects as of December 31, 2009, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources — Commitments" in this offering memorandum.

Our internal funds used to finance the acquisition of land reserves and property development costs will also include funds raised through the offering of the Notes and repatriated through the establishment of new subsidiaries or through the subscription to increases in the registered capital of our existing subsidiaries. See "Future Plan and Use of Proceeds — Use of Proceeds" in this offering memorandum for details. On May 23, 2007, MOFCOM and SAFE promulgated the Notice 50 which imposed additional restrictions and requirements on foreign investment in the real estate industry. As advised by our PRC legal counsel, Commerce & Finance Law Offices, Notice 50 requires that foreign invested property companies approved and established after the effective date of Notice 50 must comply with certain requirements for registration with MOFCOM. As none of the foreign invested enterprises of our group was approved and established after the effective date of Notice 50, our PRC legal counsel is of the view that such requirement does not apply to our group. However, Notice 50 requires that foreign invested property companies with property projects or property businesses commenced after the effective date of Notice 50 must also comply with the relevant approval requirements pursuant to Notice 50. As all of the foreign invested enterprises of our Group with newly added projects and businesses have obtained the requisite approvals required by Notice 50 and obtained the new approval certificates, our PRC legal counsel is of the view that our Group has complied with such relevant approval requirement stipulated under Notice 50.

Following the implementation of the SAFE notice, we have successfully remitted foreign funds from our offshore holding entities by increasing the respective registered capitals of each of Fantasia Group (China) Co., Ltd, Fantasia Chengdu Ecological Tourism Development Co., Ltd. and Shenzhen Zhifu Real Estate Investment Development Co., Ltd.. Our PRC legal counsel, Commerce & Finance Law Offices, is of the view that we have complied with such registration requirements under the SAFE notice.

Based on the SAFE notice, if we intend to use the proceeds from the offering of the Notes to increase the registered capital of existing foreign-invested real estate enterprises or establish new foreign-invested real estate enterprises, we must complete the requisite filing procedures with MOFCOM before we can apply for foreign exchange registration to allow the proceeds to be remitted into China for such purpose. However, even if the required filing procedures have been completed with MOFCOM, we are not permitted to use proceeds from the offering of the Notes to provide shareholder loans to newly established foreign-invested real estate enterprises or those that have increased their registered capital after June 2007 on the basis that the SAFE will not register such foreign loans or allow such proceeds to be remitted into China as a foreign loan. In addition, in accordance with a circular promulgated by the SAFE in August 2008 with respect to the administration of conversion of foreign exchange capital contribution of foreign invested enterprise into Renminbi (關於完善外商投資企業外匯資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 cannot be used for domestic equity investment or acquisition. See "Risk Factors — Risks Relating to Our Industry — PRC government policies, regulations and measures intended to curtail the overheating of the property market may adversely affect our business," "Risk Factors — Risks Relating to Our Industry — The PRC government has imposed restrictions on the ability of PRC property developers to receive offshore funds which may delay or prevent us from deploying the funds raised in this offering to our business in China and therefore materially and adversely affect our liquidity and our ability to fund and expand our business" in this offering memorandum and "Regulation — Summary of PRC Laws Relating to the Property Sector — I. Legal Supervision Relating to the Property Sector in the PRC — B. Foreign-invested Property Enterprises."

Design

In order to provide our customers with distinctive designs and also to achieve operating efficiency, we outsource the design of substantially all of our property development projects to third party domestic or international architecture and design firms. We have worked closely with leading domestic and international architecture and design firms, such as Huayi Designing Consultancy (Shenzhen) Co., Ltd., Belt Collins International (HK) Ltd., Peddle Thorp Architects-Melbourne of Australia, Architecture Urbanism Building Engineer Co., Ltd. of France and The Collaborative West Co., Ltd. and atta+K Inc. of the United States. Our product design divisions are responsible for selecting third party architecture and design firms, taking into consideration their reputation, proposed designs and their past relationship with us. From time to time, we also engage in a tender process in which the architecture and design firms submit proposals which we determine whether they can be translated into commercially viable projects. Our product design divisions supervise and provide the third party architecture and design firms with certain directions and design criteria in which we aim to market our property development projects. In addition, our product design divisions work closely with the architecture and design firms in major aspects of the design process, from master planning, design specifications and adjustments, raw material selection, to ensuring that the designs are in compliance with local regulations. Our product design divisions monitor closely the work of the architecture and design firms to ensure that the project designs meet our specifications and work together with our project directors and our construction management divisions to ensure that any problems encountered with the proposed design during construction are resolved in a timely manner.

From time to time, we have engaged and may in the future continue to engage Cube Architecture, in which Ms. Zeng and Mr. Pan indirectly held a 31% equity interest, to design our property development projects, such as for Phases II and III of Fantasia Special Town (別樣城) and for Shenzhen Future Plaza (深圳香年廣場). During the three year period ended December 31, 2009, agreements entered into with Cube Architecture are similar in terms and conditions with agreements entered into with other third party architecture and design firms for similar projects. Agreements entered into in the future with Cube Architecture will continue to be under the same terms and conditions with other third party architecture and design firms for similar projects. Except for Cube Architecture, all other architecture and design firms engaged by our Group are independent third parties.

In 2007, 2008 and 2009, payments to external architecture and design firms to engage in master planning of our projects amounted to approximately RMB13.1 million, RMB13.7 million and RMB49.8 million, respectively.

Project Construction and Management

Construction and Procurement

We outsource our project construction activities entirely to independent third party contractors and subcontractors. To ensure the smooth cooperation between third party contractors and us and high quality of construction work, we usually invite contractors to participate in a tender process. When selecting contractors, we consider the contractors' reputation, past performance, work quality, proposed delivery schedules, costs and current project type and profile and seek to maintain our construction costs at a reasonable level without sacrificing quality.

Our construction contracts are typically fixed price contracts that, except for certain provisions relating to the procurement of construction materials, provide for periodic payments during construction until a specified maximum percentage of the total contract sum is paid upon the completion of quality inspection. We generally retain a small portion of the contract price until the end of the warranty period as specified under the construction contracts to cover any potential expenses incurred as a result of any construction defects. However, under certain circumstances, the construction contracts also provide for bonus payment to the contractors if the construction is completed ahead of schedule. The construction contracts we enter into with construction companies also typically contain warranties with respect to quality and timely completion of the construction projects. We require construction companies to comply with PRC laws and regulations relating to the quality of construction as well as our own standards and specifications. A project director from our project companies is assigned to each project to monitor quality and cost control and construction progress closely during construction. In the event of a delay in

construction or unsatisfactory quality of workmanship, we may require the construction companies to pay a penalty or provide other remedies. During the three year period ended December 31, 2009, we have not experienced delay in construction or unsatisfactory quality of workmanship. In addition, as of March 31, 2010, we had not historically experienced any material disputes with any of our contractors.

A significant portion of the equipment and material used during construction are purchased by the contractors in accordance with the specifications provided by the design plan of the architecture and design firms and us. Certain materials, however, are purchased based on the joint consultation and selection between our contractors and us, such as cement. Furthermore, certain other equipment and materials, such as elevators, interior decoration materials and air conditioning systems, are purchased by us through our construction management divisions. Each transaction is initiated by a purchase order and the suppliers are asked to deliver the supplies to locations specified by the relevant property development projects. Depending on factors such as costs, shipping expenses, convenience, quality and the type of equipment and materials needed for a particular project, each of our construction management divisions may purchase the same equipment and material from different suppliers or may combine to purchase from the same supplier to enhance our negotiating powers.

In 2007, 2008 and 2009, payments to our largest supplier accounted for approximately 18.1%, 23.0% and 15.6%, respectively, of our total cost of sales for the respective period. For the same periods, payments to our five largest suppliers accounted for approximately 45.3%, 76.4% and 38.6%, respectively, of our total cost of sales for the respective period. None of our directors, nor their associates, nor any shareholder holding more than 5% of our issued share capital, has any interest in our five largest suppliers.

Quality Control and Supervision

We place a strong emphasis on quality control to ensure that our properties comply with relevant regulations, meet the specified standards and are of a high quality. Each project is assigned a project director with its own project management team, which is comprised of qualified engineers, including civil engineers, electrical engineers and sanitary engineers. Depending on the size and the nature of the project, there could be one or more than one such engineer in a given project. Our project management team perform on-site inspections and supervision on a day-to-day basis so as to ensure the workmanship and the quality of the material used by the contractors. The contractors are also subject to our quality control procedures, including appointment of internal on site quality control engineers, examination of materials and supplies and on-site inspection. To maintain quality control, we employ strict procedures for the selection, inspection and testing of the equipment and materials that are purchased. Our project management teams inspect equipment and materials to ensure compliance with the contractual specifications before accepting the materials on site and approving payment. We reject equipment and materials that are below our standards or that do not comply with our specifications. We also engage independent supervisory companies to conduct quality and safety control checks on all building materials and workmanship on site. Finally, prior to handing over a property to a purchaser, our sales and customer service departments, together with our engineers and the relevant property management company, inspect the property to ensure the quality of the completed property.

Pre-sale, Sales and Marketing

We typically conduct pre-sales of our property units prior to the completion of a project or a project phase. As of December 31, 2009, we had obtained the relevant pre-sale permits for all or certain portions of our nine projects/phases that are currently under development. Under relevant PRC regulations, we may engage in such preselling activities subject to satisfaction of certain requirements set forth in laws and regulations governing pre-sales of properties. These requirements include:

- the land premium must have been fully paid and the relevant land use rights certificates must have been obtained;
- the required construction works planning permits and the construction works commencement permits must have been obtained;
- the funds contributed to the property developments where property units are pre-sold may not be less than 25% of the total amount invested in a project and the progress and the expected completion date and delivery date of the construction work have been confirmed;

- pre-sale permits have been obtained from the construction bureaus at local levels; and
- the completion of certain milestones in the construction processes or other requirements as specified by the local government authorities.

These mandatory conditions are designed to require a certain level of capital expenditure and substantial progress in project construction before the commencement of pre-sales. Generally, the local governments also require developers and property purchasers to use standard pre-sale contracts prepared under the supervision of the local government. Developers are required to file all pre-sale contracts with local land bureaus and real estate administrations after entering into such contracts. We have complied with all the relevant pre-sale rules and regulations in the past in all material respects. See “Regulation — Real Estate Development — Sales and Pre-sales.”

The pre-sale, sales and marketing of our properties are primarily conducted by our marketing management divisions and our subsidiary Xingyan Property Consultancy, a dedicated property agency services company with over 410 employees as of December 31, 2009 that provides project planning and sales for our properties as well as the properties of other developers. The Xingyan Property Consultancy primary property agency team works closely with our marketing management divisions from the beginning of the development process to conduct market research and formulate the stylistic direction of the project and the signature identity and brand that the project aim to achieve, conduct feasibility studies based on market analysis, conduct design sales and pricing strategies and determine appropriate advertising and sales plans for a particular property development and for a particular phase of the sales cycle. When our development projects are ready for pre-sale, Xingyan Property Consultancy will establish a dedicated sales team specifically for the project who will then carry out the actual selling activities. Such dedicated sales team will work closely and under the supervision of our marketing management divisions in order to ensure an efficient and orderly onsite sales process as well as to collect purchaser data and comments. Training for the primary property agency team of Xingyan Property Consultancy is conducted periodically as well as for specific development projects. The Xingyan Property Consultancy primary property agency team will also suggest and recommend various marketing campaigns and promotional activities that will be considered and executed by our marketing management divisions. Marketing efforts cover the print media, television, internet, billboards, housing exhibits and entertainment events. Our marketing management divisions regularly review the sales performance of our properties by comparing our actual sales results against our sales plan and work with the Xingyan Property Consultancy primary property agency team to adjust our sales plan as appropriate. Consistent with third party developers that engage the services of Xingyan Property Consultancy, our project development companies also enter into sales contracts with typical market terms and conditions with Xingyan Property Consultancy to engage in the selling of our properties. For additional information, see “— Our Property Agency Business — Primary Property Agency Services.”

Our principal customers are affluent middle-to upper-class individuals and families and high-growth small- to medium-sized enterprises in high-growth regions in China. The percentage of revenue attributable to our five largest customers was less than 30% of our total revenue in 2007, 2008 and 2009. During the three year period ended December 31, 2009, none of our Group’s directors, their associates nor any of the shareholders that hold more than 5.0% of our Company’s issued capital had any interest in our five largest customers.

After-sales Services

Payment Arrangements

We typically require our purchasers to pay a non-refundable deposit that is typically between 5% and 10% of the purchase price before entering into formal purchase contracts. If the purchasers later renege on the purchase contract, they will forfeit such deposit. Upon executing the purchase contracts, the purchasers are typically required to pay not less than 30% of the total purchase price of the property. If purchasers elect to make a lump-sum payment, the remaining purchase price balance is typically required to be paid no later than three months after the execution of the purchase contracts. Purchasers of our properties, including those purchasing pre-sale properties, may also arrange for mortgage loans with

banks. As part of our sales efforts, we will assist our customers in arranging and providing information related to obtaining financing. If the purchasers elect to fund their purchases by mortgages, under current PRC laws and regulations, they may obtain mortgages of up to a maximum of 80% of the purchase price with a repayment period of up to 30 years. However, if the purchase is for a second or subsequent residential property and a bank loan was obtained to finance the purchaser's first property, then such purchaser may only obtain mortgages of up to 60%. For further purchases of properties, there would be continued downward adjustments on the percentage of the purchase price in which such purchaser can obtain a mortgage. In addition, banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan exceeds 50% of the individual borrower's monthly income or if the total debt service of the individual borrower exceeds 55% of such individual's monthly income. Purchasers are typically required to pay the remaining balance of the purchase price that is not covered by mortgages prior to the disbursement of mortgages from the banks. The payment terms of sales and pre-sales of properties are substantially identical. See "Regulation."

In accordance with industry practice, we provide guarantees to banks with respect to the mortgages offered to our purchasers upon requests of the banks. These guarantees are released upon (i) the relevant property certificates being delivered to the banks and completion of the relevant mortgage registrations, or (ii) the settlement of mortgage loans between the mortgagee banks and the purchasers of our projects. As of December 31, 2007, 2008 and 2009, our outstanding guarantees on the mortgage loans of our purchasers amounted to RMB661.2 million, RMB719.3 million, RMB1,626.3 million (US\$238.3 million), respectively, which were approximately 15.7%, 14.5%, and 14.2%, respectively, of our total assets. The default rate on the repayment of our purchasers against the total guarantees we provided in connection with mortgage loans of our purchasers was approximately 0.02% during the three year period ended December 31, 2009. See "Risk Factors — Risks Relating to Our Business — We guarantee mortgage loans provided to our purchasers and may be to the mortgagee banks if our purchasers default on their mortgage loans." We do not conduct independent credit checks and due diligences on our purchasers when providing guarantees but instead rely on the credit checks conducted by the mortgage banks, and will typically require a higher initial payments from purchasers with less than ideal credit histories or purchasers whose mortgage is considered too high as compared to their income. In addition, for certain purchasers that have been delinquent in their other financing obligations, we may refuse to provide such guarantees. We incurred a total loss of RMB0.5 million (US\$0.1 million) in the three year period ended December 31, 2009 on our guarantees of mortgage loans due to default on the underlying mortgages by certain of our purchasers. We believe that our outstanding guarantees on the mortgage loans of our purchasers are over-secured as we believe the aggregate fair value of the underlying properties exceeds the aggregate amount of outstanding guarantees.

Delivery and Other After-sales Services

In addition to assisting our customers in arranging for and providing information relating to financing, we also assist our customers in various title registration procedures relating to their properties, including assisting them to obtain their property ownership certificates. We offer various communication channels to customers to obtain timely feedback about our products or services. Furthermore, we have established a membership program, the Fantasia Club (花樣會), in which purchasers of our properties are automatically enrolled. Such membership program provides our members with points when they purchase properties from us or recommend new customers to purchase our properties. In addition, membership points are provided through promotional activities and campaigns that we run from time to time. Membership points are redeemable for gifts or cash. We believe by establishing such membership program, we are better able to establish relationships with our customers and build customer loyalty, solicit customer feedbacks, generate sales lead and provide our members with forum to share information relating to our properties and events and activities that are happening within our property communities.

We endeavor to deliver the units to our customers on a timely basis. We closely monitor the progress of the construction of our property projects and conduct pre-delivery property inspections to ensure timely delivery. The time frame for delivery is set out in the purchase contracts entered into with our customers, and we are subject to penalty payments to the purchasers for any delay in delivery caused by us. Once a property development has been completed, it must undergo inspection and receive relevant approvals from local authorities including planning bureaus, fire safety authorities and environmental protection authorities. Thereafter, the construction contractors arrange for final inspection by the

property development authority. Within 15 days of the completion of the final inspection, the property developers must file a completion inspection report upon the completion of properties with the relevant property development authority, at which time the property is ready for delivery and we may hand over keys and possession of the properties to our customers. For additional information regarding the process of completion of a property project, please see “Regulation.” During the three year period ended December 31, 2009 and up to March 31, 2010, we have completed our construction and delivered the units to our customers based on our development schedule and the time frame for delivery set out in the purchase contracts.

We engage the services of our subsidiary, Shenzhen Fantasia Management, to provide property management services to our properties, including security services, maintenance of properties and facilities and gardening as well as to solicit customer feedback on our products. Our property Shenzhen Endless Blue (深圳碧雲天) is not currently serviced by Shenzhen Fantasia Management, however, Shenzhen Endless Blue (深圳碧雲天) was our first project and Shenzhen Fantasia Management was not established at the time to provide property management services to such project.

For additional information as to our property management services, see “— Our Property Operation Business — Property Management Services.”

Commitments and Undertakings

Our purchase contracts entered into with our purchasers typically require the properties to meet certain standards and also provide certain warranties to our purchasers. We typically represent or warrant to our purchasers that our properties are constructed in accordance with the current standards of construction and design, have passed quality inspection by the relevant local authorities and all components, equipment and facilities of the properties are performing in accordance with relevant standards. We also provide warranties to our purchasers to cover the foundations, primary structures, designs, roofs, exterior walls, wire, gas and water pipes, lighting and other electrical systems of our properties for a certain number of years in accordance with relevant local requirements and standards of the cities where our properties are located. For example, in Shenzhen, we warrant to our purchasers the foundations and the primary structures and designs of our properties for a term of 50 years, water leakage for roofs and exterior walls for a term of five years, wires and gas and water pipes for a term of two years and lighting and certain electrical systems for a period of six months, provided that the properties and such wires, pipes, lighting and systems are used under normal wear and tear conditions. However, such warranties do not cover damages that are the result of improper usage or changes made to the units or equipment by the unit owners or damages that are caused by force majeure. In special circumstances, however, we may decide to provide free repair services to our customers for damages that are not covered by our warranties. For example, some of our completed properties in Chengdu suffered minor damages such as cracks on the walls during the major earthquake that struck Sichuan province in China in May 2008. While such damages are not covered by our warranties because the earthquake constitutes force majeure, we decided to repair such cracks for our customers at our own costs in order to increase our customer satisfaction and enhance our reputation as a responsible property developer.

Our Property Investment Business

We currently hold certain commercial, industrial and residential units, office spaces, retail shops and car parking spaces, which we consider to be properties held for investment. Such properties are held and managed by us in order to provide us with recurring rental income as well as for capital appreciation potentials. Our investment properties are typically located in prosperous city business areas or areas around city centers as well as in large communities that we develop. In addition, by holding certain properties for lease in the projects that we develop, we believe we have the ability to introduce certain tenants that may potentially increase the attractiveness of our properties. For example, Shenzhen Xingyan Investment Development Co., Ltd. have entered into an agreement with Shenzhen Suibao Chain-Store Business Development Co., Ltd. (深圳歲寶連鎖商業發展有限公司), a large-scale department store operator based in Shenzhen, which has leased retail spaces with a total GFA of approximately 10,888 square meters in our Shenzhen My Place (深圳花好園) project, which will provide the residents or tenants of Shenzhen My Place (深圳花好園) the ability to conveniently purchase household products and clothings within minutes from their home. In selecting tenants, we generally consider factors such as the

business of the tenant, the attractiveness of such business to the residents or tenants of our properties, competing business in the surrounding area and reputation, among others. The table below sets forth our investment properties as of December 31, 2009:

	<u>Office and Industrial</u>	<u>Residential</u>	<u>Commercial</u>	<u>Car park</u>
	(square meters)	(square meters)	(square meters)	(units)
Total GFA retained for investment	450.2	230.7	24,881.0	3,165

The car parking spaces that we hold for investment in Shenzhen contributed approximately RMB8.4 million (US\$1.2 million) to our total revenue, accounting for an insignificant portion, during the three year period ended December 31, 2009.

In June 2009, we entered into an agreement for the purchase of the Incubation Park in Shenzhen Meinian Plaza (深圳美年廣場) after the construction of the Incubation Park was completed. We plan to hold approximately half of the total GFA of the Incubation Park for investment. For additional information, see “— Our Property Development Projects — Shenzhen — Shenzhen Meinian Plaza (深圳美年廣場).”

As additional properties are developed, we will continue to hold a certain percentage of our developed properties as investment properties. However, we may also decide to sell such investment properties from time to time when we believe that such sales would generate a better return on investment than through rental or holding for capital appreciation.

As a result of holding investment properties, our profitability may fluctuate substantially due to changes in fair value of our investment properties because certain portion of our net profits were, during the three-year period ended December 31, 2009, and will continue to be, attributable to changes in fair value of our investment properties. The fair value of our investment properties is likely to fluctuate from time to time in accordance with local real property market conditions and factors that are beyond our control and may decrease significantly in the future.

Our Property Operation Business

Overview

We provide property operation services to our properties through the subsidiaries of Shenzhen Fantasia Colour, a subsidiary of our Group in which we own 70% equity interest, with the remaining equity interests owned by the senior management of Shenzhen Fantasia Colour and employees of the subsidiaries of Shenzhen Fantasia Colour. Property operation services provided include property management services, building equipment installation, maintenance and repair services and information network services. In addition to servicing properties developed by us, our Group’s property operation services are also provided to properties of other developers. As of December 31, 2009, we had over 2,000 employees for our property operation business. Shenzhen Colour Life Technology Co. Ltd. and each of its operating subsidiaries have received the relevant certifications and qualifications to provide the respective property operation services.

Property Management Services

Our property management services are primarily provided by our subsidiary, Shenzhen Fantasia Management. Shenzhen Fantasia Management was awarded Top Ten Property Management Companies in China for Customer Satisfaction in 2007 (2007年度中國十大業主最滿意物業管理企業) by the Real Estate Market Experts Committee of the China Real Estate Association (中國房地產協會房地產市場專業委員會) and one of the Top Ten Property Management Brands in Shenzhen (深圳物管十大品牌) in 2008 jointly presented by Shenzhen Special Zone Daily (深圳特區報), Hong Kong Commercial Daily (香港商報) and Sunshine Daily (晶報). We also acquired Shenzhen Liantang Management, a company that is engaged in the property management services business, in September 2008.

We currently provide property management services to all of the properties developed by us, except for Shenzhen Endless Blue (深圳碧雲天), which is managed by Shenzhen Shengfu Real Estate Management Co., Ltd. (深圳市盛孚物業管理有限公司). We also provide property management services to properties developed by other developers. We aim to provide the properties that we manage with a comprehensive property management services that range from security services, general maintenance of properties and facilities, gardening and other property management services. We also coordinate with the developers, including our property development project companies, to collect customer feedbacks and address concerns the customers may have as to the development. We typically provide services to other developers under our own brand name.

The typical property management contracts entered into between us and the owners of the properties, including the properties developed by our Group, set out the scope and the quality requirements of the services to be provided by us and the management fee arrangements. Fees are typically fixed at a pre-determined rate within the price range determined by the relevant local authorities that may not be increased without the prior consent of a majority of the owners of the properties. In addition, the contracts also typically allow us to subcontract some of the services, such as security or cleaning services, to third parties. However, under PRC laws and regulations, the home owners of a residential community of certain scale have the right to change property management companies pursuant to certain procedures. See “Risk Factors — Risks Relating to Our Business — Property owners may terminate our engagement as the provider of property management services.” As of March 31, 2010, none of our property management contracts had been terminated.

In addition to -conventional property management services, we also provide the owners of certain of the properties developed by our Group with daily house-keeping, travel arrangements and other fee-based services that are similar to those offered in hotels.

As we have gained our reputation for providing high quality property management services, other property management companies have retained us to help them improve the property management services they provide to their clients. We receive a consulting fee in return for the advisory services we provide to such third party property management companies.

The following table sets forth the total GFA managed by us and total GFA in which we provided advisory services as of the dates indicated:

	As of December 31,		
	2007	2008	2009
	(in thousands of square meters)		
GFA under management	4,871	6,374	8,383
GFA in which advisory services are provided	673	2,736	2,581
Total	<u>5,544</u>	<u>9,110</u>	<u>10,963</u>

As of December 31, 2009, of the total GFA under management by us, approximately 1,294,232 square meters, or 15.4%, were properties developed by us and approximately 7,088,369 million square meters, or 84.6%, were properties developed by independent third parties. All GFA to which we provide advisory services were properties developed by independent third parties.

In addition, as of December 31, 2009, we entered into contractual arrangements for the management of additional properties with a total GFA of approximately 2,796,251 square meters and for the provision of advisory services to additional properties with a total GFA of approximately 300,000 square meters.

Building Equipment Installation, Maintenance and Repair Services

In October 2006, Shenzhen Fantasia Colour acquired 100% equity interest in Shenzhen Kaiyuan Tongji Building Science & Technology Co., Ltd. (“Shenzhen Kaiyuan”), a company with qualifications to engage in the installation, repair and maintenance of building equipment. Shenzhen Kaiyuan currently installs, repairs and maintains certain building equipment of the properties that are managed by us as well as properties developed or managed by others, including China Vanke Co., Ltd. (萬科企業股份有限公司). By having an in-house team of experts who are able to install, repair and maintain building equipment, we believe we are better able to respond to customers’ property servicing needs, reduce building equipment downtime and control installation, maintenance and servicing costs. In addition, by having our own team of experts to provide building equipment installation, maintenance and repair services, we believe we are also better able to control the image and reputation of our properties by being able to respond quickly to repair and maintenance servicing needs as well as strengthen the management services provided by us. Shenzhen Kaiyuan will continue to enhance its expertise and capabilities by servicing more properties as well as by hiring additional personnel when appropriate.

Information Network Services

In order to provide a broader range of property operation services, Shenzhen Fantasia Colour established a wholly owned subsidiary, Shenzhen Colour Life Network Services Co., Ltd. (“Shenzhen Colour Life Network”) in June 2007, which is aimed to connect residents or tenants of properties managed by Shenzhen Fantasia Management with third party vendors through an internally developed internet information platform that provides a variety of value-added services. Such value-added services currently include online ordering for household products, which provide convenience and reduce the costs of household purchases for the residents and tenants due to bulk orders. In addition, we believe such information platform also enhances the communications between residents or tenants with the property manager. Shenzhen Colour Life Network aims to continue to improve its information platform and offer additional services such as online payment options or customizable online service orders, as well as integrating its information platform with Xingyan Property Consultancy’s own secondary property brokerage information database to provide real estate market information, thereby connecting the large customer base of Shenzhen Fantasia Management with Xingyan Property Consultancy’s secondary property brokerage services. We believe such large audiences that our information platform reaches will also attract third party vendors to work with Shenzhen Colour Life Network to provide other additional services that will further enhance our offering. Shenzhen Colour Life Network generates revenue through the collection of fees and commissions from vendors that use our information network to offer their products or services.

Our Property Agency Business

Overview

Our Group provides dedicated property agency services through our subsidiary, Xingyan Property Consultancy, in which we owned 85% equity interest, with the remaining equity interests owned by Lu Ying (路瑩), the general manager and a director of Xingyan Property Consultancy. Xingyan Property Consultancy offers three principal types of services: (i) primary property agency services that engage in the selling of properties that we develop as well as properties developed by others, (ii) secondary property brokerage services and (iii) property consulting and advisory services. As of December 31, 2009, Xingyan Property Consultancy had over 410 employees with offices in Chengdu, Shenzhen, Dongguan, Huizhou and three other cities in Hebei, Henan and Anhui provinces in China.

Xingyan Property Consultancy has established a research and development center in January 2008 that focuses on real estate market and policy research, establishing property development project operational and technical standards, the development and improvement of system applications for real estate companies and to support and enhance the services provided by Xingyan Property Consultancy. We believe that this research and development center provides Xingyan Property Consultancy with a more systematic and in-depth research and development capability than its competitors, and enables it to identify changes in market conditions. We believe such advantages enhance Xingyan Property Consultancy’s ability to provide services to its customers as well as to increase the reliability of the information and analysis that are available to our property development business.

Xingyan Property Consultancy and its operating subsidiary, Shenzhen Xingyanhang Property Co., Ltd., have received the relevant registration certificate for real estate agencies by the relevant local authority. As a sales agent for property developers, the main responsibility of Xingyan Property Consultancy is to act as intermediary between property developer and property purchasers to bolster agreements on the purchase of properties. If there is any dispute relating to delays in a transaction or the quality of the sold properties, all legal liability and/or obligations arising from such disputes have to be settled between the property developers and the purchasers.

Primary Property Agency Services

Xingyan Property Consultancy's principal business has traditionally been, and we expect will continue in the foreseeable future to be, the marketing and selling of properties that the Group develops as well as properties developed by others. The following table sets forth the total GFA and value of properties sold for the periods indicated:

	As of December 31,		
	2007	2008	2009
(in thousands of square meters)			
GFA of new properties sold (thousands of square meters) :			
Our properties	223	114	325
Properties of other developers	1,123	266	415
Total	<u>1,346</u>	<u>380</u>	<u>740</u>
Value of new properties sold (in RMB thousands) :			
Our properties	1,107,218	1,149,042	2,506,670
Properties of other developers	7,064,022	1,786,448	3,921,714
Total	<u>8,171,240</u>	<u>2,935,490</u>	<u>6,428,384</u>

Xingyan Property Consultancy usually commences its services by preparing a customized marketing plan for the project. Xingyan Property Consultancy typically works closely with developers from an early stage to develop a signature identity that is distinctive to a project and to position the project and establish awareness of the project among prospective purchasers in the primary market. Xingyan Property Consultancy collects profiles of typical buyers and selects advertising companies to design the marketing materials and marketing venues based on the profiles. Marketing efforts cover the print media, television, internet, billboards at public spaces, housing exhibits and entertainment events. Certain marketing efforts are carried out by the sales personnel of Xingyan Property Consultancy, while other marketing efforts are recommended to the developers and executed by the developers. For discussion as to the sales and marketing of our property development projects, see “— Property Development — Pre-sale, Sales and Marketing.”

Once a development project is ready to enter the sales phase, Xingyan Property Consultancy establishes functional sales offices on-site for each development project. Xingyan Property Consultancy stations sales personnel specially trained for the project at the project site until most of the units are sold. Xingyan Property Consultancy's sales personnel provide prospective buyers with a presentation of the architectural, design and construction aspects of the project as well as provide information on the surrounding community and amenities, recommend appropriate units based on their purchase criteria and accompany the prospective buyers to tour the units and the project amenities. Xingyan Property Consultancy's sales personnel also pursue sales leads and provide further assistance to interested buyers. Xingyan Property Consultancy continuously monitors the inventory level of unsold units as well as customer feedbacks to enable the sales personnel and developers to adjust strategies for the sales of unsold units as well as the construction and sale of the units to be built.

Contracts between Xingyan Property Consultancy and developers usually specify the sales period, the minimum average sales price and the sales commissions. Typically, Xingyan Property Consultancy receives a fixed or progressive percentage as a commission based on total sales amount. Some contracts also provide for bonus commissions for sales achieved above the pre-determined levels. The contracts entered into with our Group's project companies are similar in terms and conditions to those entered into with other developers.

Secondary Property Brokerage Services

Xingyan Property Consultancy's secondary property brokerage services include offering advisory services on choices of properties, accompanying potential buyers and tenants on house viewing trips, negotiating price and other terms, providing preliminary proof of title, coordinating with the notary, the bank and the title transfer agency. In addition to selling properties in the secondary real estate market, our brokerage storefronts also support Xingyan Property Consultancy's sales effort in the primary property agency services market primarily by promoting and selling any remaining unsold units of certain primary real estate projects. This not only generates additional transactions and revenues for Xingyan Property Consultancy's secondary property brokerage business but also enhances the primary real estate agency services offered to its clients.

Under applicable PRC law, we are permitted to represent both the seller and the purchaser and are entitled to receive up to 1.5% of the transaction value as sales commission from each side in a secondary real estate sales transaction. We typically represent both the seller and the purchaser in our secondary real estate sales transactions in accordance with customary practice in China. For rental units, we typically charge a one-time commission that is equal to 100% of the contracted monthly rent.

Property Consulting and Advisory Services

Xingyan Property Consultancy provides property consulting and advisory services tailored to meet the needs of third party developers at various stages of the project development and sales process. Consulting and advisory services are generally offered for a fixed and pre-negotiated fee which is recognized when the obligations under the relevant service contracts are fulfilled. These obligations typically involve providing clients with the results of studies or other deliverables as agreed in the service contracts.

Our Hotel Services Business

We are developing boutique hotels within several projects that we are developing, including Chengdu Hailun Plaza (成都喜年廣場), Meinian International Plaza (美年國際廣場), Chengdu Mont Conquerant (成都君山) and Town on the Water (雲海間). We plan to convert part of the No. 3 Factory Building in Shenzhen Meinian Plaza (深圳美年廣場) into a hotel. As we intend to retain these hotels after their completion, we have established Shenzhen Fantasia Hotel Management Co., Ltd. ("Shenzhen Fantasia Hotel Management"), a wholly owned subsidiary of Fantasia Group (China) Co., Ltd., Shenzhen Caiyue Hotel Management, a wholly owned subsidiary of Shenzhen Fantasia Colour, and Shenzhen Caiyue Hotel, a wholly owned subsidiary of Shenzhen Caiyue Hotel Management, to engage in the hotel management and operation business.

Shenzhen Caiyue Hotel Management and Shenzhen Caiyue Hotel have been managing and operating Colorful Inn (彩悅酒店) since December 2008, which is an economy hotel with 110 guest rooms located in Shenzhen. We lease the building for the hotel from an independent third party. As of March 31, 2010, Shenzhen Fantasia Hotel Management was involved in the design, decoration and planning of boutique hotels being developed by us, but had not yet started its hotel management business.

We have entered into agreements relating to the operation and management of the boutique hotel within Chengdu Hailun Plaza (成都喜年廣場). In October 2007, Chengdu Tonghe Real Estate Co., Ltd. entered into a supporting and consulting services agreement with C.T.E.W. in which C.T.E.W. will provide consulting and technical support services relating to our boutique hotel within Chengdu Hailun Plaza (成都喜年廣場). C.T.E.W. agrees to establish a dedicated working group to provide services such as advising on architectural and interior designs, supervising decoration, and recommending the

procurement of furniture, tableware and other hotel necessities. C.T.E.W. also agrees to provide professional consulting services relating to human resource recruitment and management, employee training, and the operation of an internal financial system for the daily management of a hospitality business. C.T.E.W. will in return receive a consulting fee, which is a fixed sum payable by us in three installments as specified in the services agreement. Chengdu Tonghe Real Estate Co., Ltd. has also entered into a hospitality management contract in October 2007 with Rhombus, a subsidiary of C.T.E.W., relating to the daily operation of the boutique hotel within Chengdu Hailrun Plaza (成都喜年廣場). Rhombus currently operates several hotels in Hong Kong and North America, including the boutique hotel Hotel LKF in Hong Kong. The hospitality management contract is for a term of 10 years and Rhombus will operate our boutique hotel within Chengdu Hailrun Plaza (成都喜年廣場) and provide high quality hotel management services. We believe that by partnering with Rhombus, we will be able to benefit from their hotel operation experience, their reputation, marketing services, reservation systems and employee training programs and improve the hotel services to be provided by our subsidiaries in the future.

Properties Used or Occupied by Us

Our corporate headquarters are located on the 4th, 27th and 28th floor of Block A, Hailrun Complex, #6021 Shennan Boulevard, Shenzhen 518040, with a GFA of approximately 4,080 square meters. Such property is owned by Shenzhen Xingyan Investment Development Co., Ltd., a project development company in which we own 52% equity interest. In addition, we currently own and lease a number of other properties that are used as our offices.

We acquired the No. 3 Factory Building located at No. 3, Pengji Longdian Industrial City, Shekou Industrial Avenue, Nanshan District, Shenzhen, Guangdong Province from Shenye Pengji (Group) Co., Ltd. (深業鵬基(集團)有限公司), an Independent Third Party, in July 2009. The No. 3 Factory Building occupies a site area of approximately 3,123 square meters and has a total GFA of approximately 12,571 square meters. The land use rights for the No. 3 Factory Building were granted for industrial purposes. We plan to convert the No. 3 Factory Building into a hotel and other ancillary facilities to service the Incubation Park in our Shenzhen Meinian Plaza (深圳美年廣場) after obtaining all necessary governmental approvals.

As of December 31, 2009, properties owned and used by us had an aggregate GFA of approximately 16,652 square meters. We have obtained the relevant land use rights certificates in respect of such owned properties. As of December 31, 2009, the properties that we lease had an aggregate GFA of approximately 17,874 square meters, with an aggregate GFA of approximately 17,688 square meters located in the PRC and an aggregate GFA of approximately 186 square meters located in Hong Kong. As of December 31, 2009, we, as lessees, had signed 31 tenancy agreements with the relevant lessors, leasing units and buildings for office and residential purposes. We had completed registration of 8 out of the 31 tenancy agreements as of December 31, 2009 and were in the process of applying for, and/or requesting the relevant lessors to assist in, the registration of the remaining tenancy agreements. As advised by our PRC legal counsel, Commerce & Finance Law Offices, the failure of registering a tenancy agreement would not affect the validity and enforceability of such tenancy agreement under the applicable laws and regulations. In addition, for the 23 properties for which the registrations have not been completed yet, we have not been provided with the relevant title certificates, and as a result, the validity of the tenancy agreements with respect to such properties is uncertain. We lease such properties primarily as offices of the local branches of our subsidiaries and staff dormitories of our employees. We believe that in the event there is any future dispute due to lessor's defective title to the leased property and/or in connection with the validity of the tenancy agreements, we will be able to find alternative premises within a short time frame and with minimal adverse impact on, or disruption to, our business operations.

Intellectual Property

We place significant emphasis on developing our brand image and resort to extensive trademark registrations to protect all aspects of our brand image. We have registered in the PRC the trademarks of “花樣年” and “花樣年FANTASIA” to protect our corporate name in Chinese and English. We have also registered the “花樣年” trademark in Hong Kong and have applied for the registration of the “FANTASIA” trademark in Hong Kong. In addition, we have registered trademarks and trademark

registration applications in Hong Kong and the PRC that cover the names of our important subsidiaries and property development projects and services. For additional information, see “Regulation.”

We have also registered the domain name of www.cnfantasia.com for the website of our Group on the Internet.

Competition

There are many property developers that undertake property development projects in the Chengdu-Chongqing Economic Zone, the Pearl River Delta region, the Yangtze River Delta region and the Beijing-Tianjin metropolitan region and elsewhere in the PRC. Our major competitors include large national and regional property developers, including local property developers that focus on one or more of the regions in which we operate. We endeavour to further strengthen our leading position in these regions. Our competitors, however, may have a better track record, greater financial, marketing and land resources, broader name recognition and greater economies of scale than us in the regions where we operate.

We also face competition for our real estate services businesses from other real estate service providers in China as well as certain international real estate service providers. The competition in the real estate services businesses is rapidly evolving, highly fragmented and competitive, and our competitors and competitive factors differ depending on the type of services provided and the geographic market in which we provide such services. Compared to property development, real estate services businesses require a smaller commitment of capital resources and have a relatively lower barrier of entry. Our competitors may have more experience and resources than we have.

For more information on competition, see “Risk Factors — Risks Relating to Our Business — We face intense competition as to our property development business, property operation services business, property agency services business and hotel services business.”

Insurance

We do not maintain insurance policies for properties that we have delivered to our customers, nor do we maintain insurance coverage against potential losses or damages with respect to our properties before their delivery to customers. In addition, our contractors typically do not maintain insurance coverage on our properties under construction. Based on industry practice in the PRC, we believe that third party contractors should bear liabilities from tortious acts or other personal injuries on our project sites, and we do not maintain insurance coverage against such liabilities. The construction companies, however, are responsible for quality and safety control during the course of the construction and are required to maintain accident insurance for their construction workers pursuant to PRC laws and regulations. To help ensure construction quality and safety, we have established a set of standards and specifications to be complied with during the construction process. Furthermore, we engage qualified supervision companies to oversee the construction process. Under PRC laws, the owner or manager of properties under construction bears civil liability for personal injuries arising out of construction work unless the owner or manager can prove that he/she is not at fault. Since we have taken the above steps to prevent construction accidents and personal injuries, we believe that we would generally be able to demonstrate that we were not at fault as the property owner if a personal injury claim is brought against us. To date, we have not experienced any material destruction of or damage to our property developments nor have any material personal injury-related claims been brought against us.

Our directors believe our insurance policies are adequate and in line with the industry practice in the PRC. However, we may not have sufficient insurance coverage for losses, damages and liabilities that may arise in our business operations. See “Risk Factors — Risks Relating to Our Business — We may suffer losses arising from uninsured risks.”

Employees

As of March 31, 2010, we had 3,208 full time employees. The following table provides a breakdown of our employees by responsibilities as of March 31, 2010:

Management	66
Administration	122
Accounting	82
Human Resource	25
Engineering	302
Marketing and Sales	99
Property Agency	295
Property Management	2,227
Total	3,208

The remuneration package of our employees includes salary, bonus and other cash subsidies. In general, we determine employee salaries based on each employee's qualification, position and seniority. We have designed an annual review system to assess the performance of our employees, which forms the basis of our determination on salary raise, bonus and promotion. We are subject to social insurance contribution plans organized by the PRC local governments. In accordance with the relevant national and local labor and social welfare laws and regulations, we are required to pay on behalf of our employees monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and housing reserve fund. We believe the salaries and benefits that our employees receive are competitive in comparison with market rates.

Our employees do not negotiate their terms of employment through any labour union or by way of collective bargaining agreements. We believe our relationship with our employees is good. We have not experienced significant labor disputes which adversely affected or are likely to have an adverse effect on our business operations.

Environmental Matters

We are subject to PRC environmental laws and regulations as well as environmental regulations promulgated by local governments. As required by PRC laws and regulations, each project developed by a property developer is required to undergo an environmental impact assessment, and an environmental impact assessment report is required to be submitted to the relevant government authorities for approval before commencement of construction. When there is a material change in respect of the construction site, scale or nature of a given project, a new environmental impact assessment report must be submitted for approval. During the course of construction, the property developer must take measures to prevent air pollution, noise emissions and water and waste discharge. In addition, as we contract our construction works to independent third party contractors and pursuant to the terms of the construction contracts, the contractors and subcontractors are required to comply with the environmental impact assessment and the conditions of the subsequent approval granted by the relevant government authority. During construction, our project directors and project management teams will supervise the implementation of the environmental protection measures.

In addition, PRC environmental laws and regulations provide that if a construction project includes environmental facilities (including engineering projects, devices, monitors and other facilities that were constructed or equipped in order to prevent pollution and protect the environment), such facilities will have to pass an inspection by the environmental authorities and an approval must be obtained before the environmental facilities can commence operations. If a construction project does not include any environmental facilities, no such approval is required. Our business is of such a nature that we are not required to construct environmental facilities and, therefore no approval in respect of environmental facilities from the environmental authorities is necessary.

We believe that our operations are in compliance with currently applicable national and local environmental and safety laws and regulations in all material respects. See “Risk Factors — Risks Relating to Our Business — We are subject to potential environmental liability that could result in substantial costs.”

Health and Safety Matters

Under PRC laws and regulations, we, as a property developer, have very limited potential liabilities to the workers on and visitors to our construction sites, most of which rest with our contractors. Under the Construction Law of the People’s Republic of China (中華人民共和國建築法), the construction contractor assumes responsibility for the safety of the construction site. The main contractor will take overall responsibility for the site, and the subcontractors are required to comply with the protective measures adopted by the main contractor. Under the Environmental and Hygienic Standards of Construction Work Site (建築工地現場環境和衛生標準), a contractor is required to adopt effective occupational injuries control measures, to provide workers with necessary protective devices, and to offer regular physical examinations and training to workers who are exposed to the risk of occupational injuries. To our knowledge, there has been no material non-compliance with the health and safety laws and regulations by our contractors or subcontractors during the course of their business dealings with the Group. During the earthquake that struck Sichuan province in China in May 2008, neither our Group nor our contractors suffered any loss of lives or injury to our and their respective employees as a result of the earthquake.

In addition, our project directors and project management teams will engage in a weekly safety inspection to ensure the safety of the work environment of our construction sites.

Legal Proceedings

From time to time we are involved in legal proceedings or disputes in the ordinary course of business including claims relating to our guarantees for mortgage loans provided to our purchasers, contract disputes with our purchasers and suppliers and employment disputes.

In June 2007, Shenzhen Xingyan Investment Development Co., Ltd. filed a civil complaint in the People’s Court of Futian District, Shenzhen against Shenzhen Shengfu Real Estate Management Co., Ltd. (深圳市盛孚物業管理有限公司) (“Shengfu”), the property manager of our Shenzhen Endless Blue (深圳碧雲天) project, relating to the 177 car parking spaces in such project, which we have retained for investment purposes. The complaint asserted that since December 2006, Shengfu had illegally occupied and collected parking fees from such car parking spaces without our consent. On February 6, 2009, the court awarded Shenzhen Xingyan Investment Development Co., Ltd. a total of RMB526,575 (plus RMB3,914 in interest) representing approximately 70% of the revenue collected by Shengfu for the period from December 2006 to April 2008. On the basis that (i) a single property development such as Shenzhen Endless Blue may only have one property manager at any one time, and (ii) the local government in Shenzhen has not issued rules and procedures for the registration of property rights in car parking spaces, the court declined to order Shengfu to return management of the contested parking spaces to Shenzhen Xingyan Investment Development Co., Ltd. Both parties appealed the decision. On November 27, 2009, the Intermediate People’s Court of Shenzhen upheld the trial court’s ruling in full and dismissed the appeals. Commerce & Finance Law Offices, our PRC legal counsel, has advised us that the Intermediate People’s Court’s decision is final and may not be appealed. As a result, unless (i) an agreement for the distribution of revenue is reached between Shenzhen Xingyan Investment Development Co., Ltd. and Shengfu or (ii) the Shenzhen local government issues rules and procedures for the registration of property rights in car parking spaces, Shenzhen Xingyan Investment Development Co., Ltd. has no option but to periodically sue Shengfu to recover its share of the revenue generated from such car parking spaces.

On April 21, 2009, Shenzhen Xingyan Investment Development Co., Ltd. filed a claim with the People's Court of Futian District, Shenzhen to recover the revenue generated by the contested car parking spaces for the period from May 1, 2008 until November 30, 2009. The court granted Shenzhen Xingyan Investment Development Co., Ltd.'s application to freeze RMB845,196 in Shengfu's bank accounts and a trial is currently underway. For additional information as to our Shenzhen Endless Blue (深圳碧雲天) project, see "- Our Property Development Projects — Pearl River Delta Region — Shenzhen — Shenzhen Endless Blue (深圳碧雲天)." Since the development of Shenzhen Endless Blue (深圳碧雲天), we have managed all of the other car parking spaces in our projects through the subsidiaries of Shenzhen Fantasia Colour, a subsidiary of our Group in which we own a 70% equity interest. As a result, we do not believe any of our other car parking spaces will be illegally occupied in the future.

As of the date of this offering memorandum, we are not aware of any material legal proceedings, claims or disputes currently existing or pending against us. However, we cannot assure you that material legal proceedings, claims or disputes will not arise in the future. See "Risk Factors — Risks Relating to Our Business — We may be involved in legal and other proceedings arising out of our operations from time to time and may incur substantial losses and face significant liabilities as a result."

REGULATION

I. LEGAL SUPERVISION RELATING TO THE PROPERTY SECTION IN THE PRC

A. Establishment of a Property Development Enterprise

According to the Law of the People's Republic of China on the Administration of Urban Property (中華人民共和國城市房地產管理法) (the "Urban Property Law") promulgated by the Standing Committee of the National People's Congress on July 5, 1994 and revised in August 2007, a property development enterprise is defined as an enterprise which engages in the development and sale of property for the purpose of making profits. Under the Regulations on Administration of Development of Urban Property (城市房地產開發經營管理條例) (the "Development Regulations") promulgated by the State Council on July 20, 1998, an enterprise which is to engage in development of property shall satisfy the following requirements: (1) its minimum registered capital shall be RMB1 million; and (2) it shall employ at least four full-time professional property/construction technicians and at least two full-time accounting officers, each of whom shall hold relevant qualification certificates. The Development Regulations also stipulate that the local government of a province, autonomous region or municipality directly under the central government may, based on local circumstances, impose more stringent requirements on the amount of registered capital of, and the qualifications of professionals retained by, property development enterprises. The following local regulations apply to our business and operations in the PRC:

- a) The Regulations on Property Developments of Guangdong Province (廣東省房地產開發經營條例) revised by the Standing Committee of Guangdong Provincial People's Congress on September 22, 1997, which stipulate that the self-funded capital of a property development enterprise in the Guangdong Province shall be at least RMB3 million.
- b) The Circular in Respect of the Relevant Rules Governing the Administration of Industrial and Commercial Registration and Qualification of Property Development Entities (關於房地產開發企業工商登記與資質管理有關規定的通知) promulgated by the Construction Bureau of Sichuan Province on September 2, 2004, which states that the minimum registered capital of a property development enterprise shall be RMB5 million.
- c) The Regulations on Property Development in Tianjin City (天津市房地產開發企業管理規定) promulgated by the Tianjin City People's Congress on September 12, 2001, which state the minimum registered capital of a property development enterprise should be RMB10 million.
- d) The Detailed Rules for the Implementation of the provisions on the Administration of Qualifications of Property Developers of Jiangsu Province (江蘇省實施《房地產開發企業資質管理規定》細則) promulgated by the Construction Bureau of Jiangsu Province on August 6, 2001, which stipulate that the minimum registered capital of a property development enterprise established in Yixing City shall be RMB4 million.
- e) The Forwarding Notice of the Ministry of Construction Regulations regarding the Administration of Qualifications of Property Developers (關於轉發建設部《房地產開發企業資質管理規定》的通知), issued by the Beijing Municipal Commission of Housing and Urban Development Construction on September 4, 2000, which stipulate that the minimum registered capital of a property development enterprise in Beijing shall be RMB10 million.
- f) There is no local regulation for Yunnan Province specifying more stringent requirements on the amount of registered capital and the qualifications of professionals of a property development enterprise.

Pursuant to the Development Regulations, a developer who aims to establish a property development enterprise should apply for registration with the Administration for Industry and Commerce. The property development enterprise must also report its establishment to the property development authority in the location of the registration authority, within 30 days upon the receipt of its Business License (營業執照).

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 funding for property projects (excluding affordable residential housing projects) has been increased from 20% to 35%.

However, on May 25, 2009, the State Council issued the Notice on Adjusting the Minimum Capital Requirement for Fixed Assets Investment (關於調整固定資產投資項目資本金比例的通知) and lowered the minimum capital requirement for projects of affordable residential housing and regular commodity residential houses from 35% to 20% and, for other property projects, to 30%.

B. Foreign-invested Property Enterprises

Under the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) amended jointly by MOFCOM and the NDRC in October 2007 and with effect from December 1, 2007, foreign investment in enterprises engaged in the development of a whole land lot, the construction and operation of high end hotels, villas, premium office buildings, international conference centers and large theme parks, transactions in the real estate secondary market and real estate intermediary or broker services falls within the category of industries in which foreign investment is restricted, while foreign investment related to other kinds of real estate development falls within the category of industry in which foreign investment is permitted.

According to the Interim Provisions on Approving Foreign Investment Projects (外商投資項目核准暫行管理辦法) promulgated by the NDRC in October 2004, the NDRC shall examine and approve foreign investment projects with a total investment of US\$100 million or more that come within the category of industries in which foreign investment is encouraged or permitted and those with a total investment of US\$50 million or more that come within the category of industries in which foreign investment is restricted. Foreign investment projects with a total investment of US\$500 million or more that come within the category of industries in which foreign investment is encouraged or permitted and those with a total investment of US\$100 million or more that come within the category of industries in which foreign investment is restricted are subject to further approval of the State Council based on the examination and approval of the NDRC.

Foreign invested property enterprises can be established in the form of a Sino-foreign equity joint venture, a Sino-foreign cooperative joint venture or a wholly foreign-owned enterprise. Prior to its registration, the enterprise must be approved by the commerce authorities, upon which a Certificate of Approval for a Foreign-Invested Enterprise (外商投資企業批准證書) will be issued.

On July 11, 2006, the MOC, MOFCOM, the NDRC, the PBOC, SAIC and SAFE jointly promulgated the Opinion on Regulating the Access to and Management of Foreign Capital in the Property Market (關於規範房地產市場外資准入和管理的意見) (the “Opinion”). According to the Opinion, the access to and management of foreign capital in the property market must comply with the following requirements:

- a) Foreign entities or individuals who buy property not for their own use in China must apply for the establishment of a foreign-invested enterprise pursuant to the regulations of foreign investment in property. After obtaining the approvals from relevant authorities and upon completion of the relevant registrations, foreign entities and individuals can then carry on their business pursuant to their approved business scope.
- b) Where the total investment amount of a foreign-invested property development enterprise is US\$10 million or more, its registered capital shall not be less than 50 percent of the total investment amount; where the total investment amount is less than US\$10 million, its registered capital shall follow the requirements of the existing regulations.
- c) The commerce authorities and the Administration for Industry and Commerce are responsible for the approval and registration of a foreign-invested property development enterprise and the issuance to the enterprise of a Certificate of Approval for a Foreign-Invested Enterprise (which is only effective for one year) and the Business License. Upon full payment of the assignment price under a land grant contract, the foreign-invested property development enterprise should

apply for the land use rights certificate in respect of the land. With such land use rights certificate, it can obtain a formal Certificate of Approval for a Foreign-Invested Enterprise from the commerce authorities and an updated Business License.

- d) Transfers of projects or shares in foreign-invested property development enterprises or acquisitions of domestic property development enterprises by foreign investors should strictly follow relevant laws, regulations and policies and obtain the relevant approvals. The investor should submit: (1) a written undertaking of fulfillment of the contract for the assignment of State-owned land use rights; (2) a construction land planning permit and construction works planning permit; (3) land use rights certificate; (4) documents evidencing the filing for modification with the construction authorities; and (5) documents evidencing the payment of tax from the relevant tax authorities.
- e) When acquiring a domestic property development enterprise by way of share transfer or otherwise, or purchasing shares from Chinese parties in a Sino-foreign equity joint venture, foreign investors should make proper arrangements for the employees, assume responsibility for the debts of the enterprise and pay the consideration in one single payment with its own capital. Foreign investors with records showing that they have not complied with relevant employment laws, those with unsound financial track records, or those that have not fully satisfied any previous acquisition consideration shall not be allowed to undertake the aforementioned activities.

On August 14, 2006, The General Office of MOFCOM promulgated the Circular on the Thorough Implementation of the Opinion on Regulating the Access to and Management of Foreign Capital in the Property Market (關於貫徹落實《關於規範房地產市場外資准入和管理的意見》的通知) (the “Circular”). The Circular not only reiterates relevant provisions on foreign investment in the real estate industry as prescribed in the Opinion, but also sets forth the definition of Real Estate FIE as a foreign invested enterprise (FIE) which carries out the construction and operation of a variety of buildings such as ordinary residences, apartments and villas, hotels (restaurants), resorts, office buildings, convention centers, commercial facilities, and theme parks, or, undertakes the development of land or a whole land lot in respect of the abovementioned projects.

On September 1, 2006, the MOC and the SAFE jointly issued the Opinions on Regulating the Foreign Exchange Administration of the Real Estate Market (關於規範房地產市場外匯管理有關問題的通知), providing regulations on real estate development enterprises mainly as follows:

- a) For real estate development enterprises, the current account for foreign exchange shall not maintain property purchase payments remitted by residents of Hong Kong, Macau and Taiwan and overseas Chinese expatriates;
- b) Where the registered capital relating to a Real Estate FIE remains unpaid in its entirety, or the state-owned land use rights certificate is yet to be obtained, or the capital fund of development project has not reached 35 percent of the total amount of the project investment, such Real Estate FIE is not permitted to borrow foreign loans from overseas;
- c) Where foreign entities and individuals purport to merge and acquire domestic real estate enterprises by way of share transfer or any other means, acquire a Chinese party’s shares within an equity joint venture, such foreign entities and individuals must be capable of making a one-time payment in relation to the transfer consideration, otherwise SAFE shall not process any foreign exchange registration relating to the foreign exchange transaction.

On May 23, 2007, MOFCOM and SAFE promulgated the Circular on Further Strengthening and Regulating the Approval and Supervision of Real Estate Industry with Direct Foreign Investment (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 stipulated that:

- a) Strict control should be imposed on the acquisition of or investment in domestic real estate enterprises by way of return investment. Foreign investors shall not acquire control of domestic enterprises for the purpose of circumventing the approval procedure related to Real Estate FIE;

- b) In a Real Estate FIE, Chinese parties shall not, explicitly or implicitly provide any warranties with regard to allocating fixed returns to any party;
- c) A Real Estate FIE incorporated upon approval by local approval bodies should be registered with MOFCOM on a timely basis; and
- d) Foreign exchange administration bodies and designated foreign exchange banks shall not process sale and settlement of foreign exchange for capital account items for Real Estate FIEs that fail to complete filing procedures with MOFCOM or to pass joint inspection for foreign invested enterprises.

In addition, according to the Circular on Distribution of the 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) promulgated by the General Department of SAFE on July 10, 2007, (1) local branches of SAFE shall not process any foreign debt registration application or conversion of foreign debt for any Real Estate FIE (including in respect of both newly incorporated FIREEs and FIREEs that have registered increased capital contributions) that obtained a Certificate of Approval for a Foreign-Invested Enterprise from local commerce authorities and completed the registration with a MOFCOM on or after June 1, 2007; (2) SAFE branches shall not process foreign exchange registration (or alterations to registration) or, sale and settlement of foreign exchange for capital account items, for any FIREE that has obtained a Certificate of Approval from local commerce authorities, but that has not registered with MOFCOM on or after June 1, 2007.

On July 1, 2008, MOFCOM implemented the Circular on the Proper Handling of the Record Filing for Foreign Investment in the Real Estate Sector (關於做好外商投資房地產業審批工作的通知), delegating provincial-level commerce authorities the authority to register matters concerning foreign investment in real property projects after approving the legality, authenticity and accuracy of the project.

In accordance with a circular promulgated by SAFE in August 2008 with respect to the administration of conversion into Renminbi of foreign exchange capital contributions to 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), unless otherwise permitted by PRC laws or regulations, Renminbi capital converted from foreign exchange capital contributions can only be applied to activities that come within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investment or acquisition.

C. Qualifications of a Property Development Enterprise

(i) Classifications for the qualifications of property development enterprises

Under the Development Regulations, a property development enterprise must report its establishment to the governing property development authorities in the location of the registration authority within 30 days of receiving its Business License. The property development authorities shall examine applications for classification of a property development enterprise's qualification by considering its assets, professional personnel and industrial achievements. A property development enterprise shall only engage in property development projects that come within the scope of its approved qualification.

Under the Provisions on the Administration of Qualifications of Property Developers (房地產開發企業資質管理規定) (the "Provisions on Administration of Qualifications") promulgated by the MOC and implemented on March 29, 2000, a property development enterprise shall apply for registration of its qualifications. An enterprise may not engage in the development and sale of property without a qualification classification certificate for property development.

In accordance with the Provisions on Administration of Qualifications, qualifications of a property development enterprise are classified into four classes: class 1, class 2, class 3 and class 4. Different classes of qualification shall be examined and approved by corresponding authorities. The class 1 qualifications shall be subject to both preliminary examination by the construction authority under the

government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. For a newly established property development enterprise, after it reports its establishment to the property development authority, the latter shall issue a Provisional Qualification Certificate to the eligible developer within 30 days. The Provisional Qualification Certificate shall be effective for one year from its issuance and, depending on the actual business situation of the enterprise, may be extended by the property development authority for a period of no longer than two years. A property development enterprise shall apply with the property development authority for qualification classification within one month of expiry of the Provisional Qualification Certificate.

(ii) The business scope of a property development enterprise

Under the Provisions on Administration of Qualifications, a developer of any qualification classification may only engage in the development and sale of the property within its approved scope of business and may not engage in business which falls outside the approved scope of its qualification classification. A class 1 property development enterprise may undertake a property development projects throughout the country without any limit on the scale of the project. A property development enterprise of class 2 or lower may undertake a project with a gross floor area of less than 250,000 square meters and the specific scopes of business shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

(iii) The annual inspection of a property development enterprise's qualification

Pursuant to the Provisions on Administration of Qualifications, the qualification of a property development enterprise shall be inspected annually. The construction authority under the State Council or its authorized institution is responsible for the annual inspection of a class 1 property development enterprise's qualification. Procedures for annual qualification inspection for developers with class 2 or lower qualifications shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

D. Development of a Property Project

(i) Land for property development

Under the Provisional Regulations of the People's Republic of China on the Grant and Transfer of the Land-Use Rights of State-owned Urban Land (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) (the "Provisional Regulations on Grant and Transfer") promulgated by the State Council on May 19, 1990, a system of assignment and transfer of the right to use State-owned land is adopted. A land user shall pay an assignment price to the State as consideration for the grant of the right to use a land site within a certain term, and the land user may transfer, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. Under the Provisional Regulations on the Grant and Transfer and the Urban Property Law, the land administration authority under the local government of the relevant city or county shall enter into a land grant contract with the land user to provide for the assignment of land use rights. The land user shall pay the assignment price as provided by the assignment contract. After full payment of the assignment price, the land user shall register with the land administration authority and obtain a land use rights certificate which evidences the acquisition of land use rights. The Development Regulations provide that the land use right for a land parcel intended for property development shall be obtained through grant except for land use rights which may be obtained through appropriation pursuant to PRC laws or the stipulations of the State Council.

Under the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-for-sale (招標拍賣掛牌出讓國有土地使用權規定) promulgated by the MLR on May 9, 2002 and implemented on July 1, 2002, land for commercial use, tourism, entertainment and commodity housing development shall be granted by means of tender, public auction or listing-for-sale. A tender of

land use rights means the relevant land administration authority (the “assignor”) issues a tender announcement inviting individuals, legal persons or other organizations (whether specified or otherwise) to participate in a tender for the land use rights of a particular parcel of land. The land user will be determined according to the results of the tenders. An auction for land use rights is where the assignor issues an auction announcement, and the bidders can at specified time and location openly bid for a parcel of land. A listing-for-sale is where the assignor issues a listing-for-sale announcement specifying the land grant conditions and inviting bidders to list their payment applications at a specified land exchange within a specified period. The procedures for tender, auction and listing-for-sale may be summarized as follows (for the purpose of the summary, the participant in a tender, auction or listing for sale is referred to as a ‘bidder’):

- a) The land authority under the government of the city and county (the “assignor”) shall announce at least 20 days prior to the day of competitive bidding, public auction or listing-for-sale. The announcement should include basic particulars of the land parcel, qualification requirements for bidders, the methods and criteria for selection of the winning bidder and certain conditions such as the deposit for the bid.
- b) The assignor shall conduct a qualification verification of the bidding applicants and inform the applicants who satisfy the requirements of the announcement to attend the competitive bidding, public auction or listing-for-sale.
- c) After determining the winning bidder by holding a competitive bidding, public auction or listing-for-sale, the assignor and the winning bidder shall then enter into a confirmation. The assignor should refund the other applicants their deposits.
- d) The assignor and the winning bidder shall enter into a contract for the assignment of State owned land use rights at a time and venue set out in the confirmation. The deposit for the bid paid by the winning bidder will be deemed as part of the assignment price for the land use rights.
- e) The winning bidder should apply to register the land registration after paying off the assignment price. The people’s government at the municipality or county level or above should issue the land use rights certificate.

On June 11, 2003, the MLR promulgated the “Regulations on the Grant of State-owned Land Use Rights by Agreement” (協議出讓國有土地使用權規定). According to this regulation, if there is only one entity interested in using the land, the land use rights (excluding land use rights for business purposes including commercial, tourism, entertainment and residential commodity properties) may be assigned by way of agreement. If two or more entities are interested in the land use rights to be assigned, such land use rights shall be granted by means of tender, auction or listing-for-sale.

According to the Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of the Examination and Approval of Land Use in Urban Construction (關於加強城市建設用地審查報批工作有關問題的通知) promulgated by the MLR on September 4, 2003, from the day of issuance of the Notice, the assignment of land use rights for luxurious commodity houses shall be stringently controlled, and applications for land use rights for villas are to be stopped. On May 30, 2006, the MLR issued the Urgent Notice on Rigorously Strengthening the Administration of Land (關於當前進一步從嚴土地管理的緊急通知). The Notice stated that land for property development must be granted by competitive bidding, public auction or listing-for-sale; the rules prohibiting development projects for villas should be strictly enforced; and land supply and relevant procedures of land use for villas ceased to have effect from the date of the Notice.

Under the Urgent Notice of Rigorously Strengthening the Administration of the Land, the land authority should rigidly execute the “Model Text of the State-owned Land-Use Rights Grant Contract” and “Model Text of the State-owned Land-Use Rights Grant Supplementary Agreement (for Trial Implementation)” jointly promulgated by the MLR and the SAIC. The documents relating to the assignment of land should specify the requirements for planning, construction and land use such as relevant restrictions on the dwelling size and plot ratio, and the time limit for the commencement and completion of construction. All these should be set forth in the contract for the assignment of the land.

On September 21, 2007 the MLR promulgated the Rules Regarding the Grant of State-Owned Construction Land Use Rights by Way of 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 came into force on November 1, 2007. The rules stipulate the legal basis, principles, scope, procedures and legal liability arising from and in connection with the assignment of State-owned land use rights by competitive bidding, public auction or listing for sale. The rules clearly state that the grant of land for industrial use must also be by means of competitive bidding, public auction or listing for sale.

The Measures on the Administration of Reserved Land (土地儲備管理辦法), promulgated by the MOF, the PBOC and the MLR on November 19, 2007, define “reserved land” and stipulate the administrative, regulatory and implementing procedures involved with the management, planning, allocation, use, development, capital expenditure and supply of reserved land. Moreover, the measures make it clear that land must be reserved in accordance with corresponding land programs or plans, and that in determining land reserves priority must be given to land included in state inventories which is unused, unoccupied or under utilized.

In November 2009, the MLR 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 MLR has restricted the area of land that may be granted by local governments for development of commodity housing to seven hectares for small cities and towns, 14 hectares for medium-sized cities and 20 hectares for large cities.

In November 2009, the MOF, the MLR, the 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 Grants (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 contract for the assignment of land, subject to limited exceptions. Any developer defaulting on any such payment may not participate in any new transactions of land grant.

In March 2010, the MLR promulgated the Notification on Emphasizing Relevant Issues Relating to the Supply and Supervision of Land for Real Estate Development (關於加強房地產用地供應和監管的有關問題的通知) (the “Notification”) which adopted measures to improve the regulation of land for real estate development. These include measures to: improve the preparation and implementation of land supply plans; guarantee the supply of land for subsidized community housing developments; improve the regime of public tender, auction and listing-for-sale of land use rights; enhance the supervision on the use of land; disclose to the public information on the supply and assignment of land and the status of the construction project on the land; and conduct special inspections on outstanding problems related to land use.

Pursuant to the Notification, the administrative authorities for land and resources of cities and counties shall establish a regime for developers to report the commencement and completion of construction projects. Under such regime, the developer shall report in writing to the relevant administrative authority for land and resources at the commencement and completion of the construction project. The commencement and completion date of construction set forth in the agreements may be postponed by reporting the reasons for the delay to the respective administrative authority for land and resources no later than 15 days prior to such date. A developer who fails to report accordingly shall be announced to the public and prohibited from participating in any new land grant transactions for a minimum of one year. Additionally, land used for developing subsidized community housing and small-to-medium-size self-use residential commodity housing, as well as for the redevelopment of run-down and substandard housing shall account for not less than 70% of the total land supply for residential property development. The lowest land premium for the assignment of land use rights shall not be lower than 70% of the benchmark price for land of the same grade in the same locality, and the deposit for the participation as a bidder for the land shall not be lower than 20% of the minimum land premium. The contract for the assignment of land shall be executed in writing within ten days after the deal is reached, the down payment of the land assignment price, which shall not be less than 50% of the full land assignment price, shall be paid within one month after the contract for the assignment of land is executed, and the land assignment price shall be paid in full no later than one year after the contract for the

assignment of land is executed. A property development enterprise that defaults on the payment of the land premium, holds idle land, hoards or speculates in land, develops property on the land exceeding its actual development capacity or defaults on the performance of the contract for the assignment of land shall be banned from participating in any transactions for the assignment of land for a specified period.

(ii) Development of a property project

(a) Commencement of development with respect to a property project and idle land

Under the Urban Property Law, those who have obtained the land use rights by assignment must develop the land in accordance with the use and period of commencement as prescribed by the contract for the assignment of land. According to the Measures on Disposing Idle Land (閒置土地處置辦法) promulgated by the MLR on April 28, 1999, a parcel of land can be defined as idle land under any of the following circumstances:

- a) After obtaining the land use rights, the development and construction of the land has not begun within the time limit for commencement of the development as stipulated in the contract for the assignment of land without the consent of the people's government that originally approved the use of the land;
- b) The contract for the assignment of land does not stipulate or the "Approval Letter on Land Used for Construction" does not prescribe the starting date of the development and construction, or the development and construction of the land has not begun within one year from the date when the contract for the assignment of land became effective or the date when the relevant department of land issued the "Approval Letter on Land Used for Construction;"
- c) The development and construction of the land has begun, but the area of the development and construction is less than one third of the total area to be developed and constructed, or the invested amount is less than 25% of the total amount of investment, and the development and construction has been continuously suspended for one year or more without approval; or
- d) Other circumstances prescribed by laws and administrative regulations.

The municipality or county-level municipality administrative authority shall, with regard to an identified piece of idle land, give notice to the land user and draft a proposal for the disposal of idle land, including but not limited to, extending the time period for development and construction (provided that it shall be no longer than one year), changing the use of the land, arranging for temporary use and ascertaining the new land user by means of competitive bidding, public auction or listing-for-sale. The administrative department of land under the people's government at the municipality or county level shall, after the people's government that originally approved the use of the land approves the proposal on disposal, arrange for the implementation of the proposal. With respect to assigned land that is within the scope of city planning, if the construction work has not yet started after one year from the granting of the relevant approvals, since the duration in which construction may be commenced has elapsed, a fine for idle land which is equivalent to less than 20% of the assignment price may be imposed on the land user. If the construction work has not begun after two years have elapsed, the right to use the land can be taken back by the State without any compensation. However, the above sanctions shall not apply when the delay in commencement of construction is caused by force majeure or acts of government or indispensable preliminary work before commencement of construction.

On January 3, 2008, the State Council promulgated the Circular on Conservation of Intensive Land Use (關於促進節約集約用地的通知) (Guo Fa (2008) No. 3), which seeks to:

- a) Examine and adjust all ranges of site planning and land use standards in line with the principle of economic and intensive land use. Project designs, construction and approval of construction shall all be subject to stringent land use standards.

- b) Urge all localities to enforce policies for the disposal of idle land. Where a piece of land has been idle for two full years and may be retrieved unconditionally as statutorily required, such land shall be retrieved and arrangements for its use shall be made; where a piece of land has been idle for one year but less than two years, an idle land charge valued at 20 percent of the land assignment premium shall be levied on the land user.
- c) Vigorously guide the use of unused and abandoned land and encourage the development and utilization of aboveground and underground space.
- d) Strictly implement the tender, auction and listing-for-sale regime for land intended for industrial and business purposes. Where the total land premium is not paid in full in compliance with contractual agreement, the land use certificate shall not be issued, nor shall it be issued in proportion to the ratio between the paid-up land premium and the total land premium.
- e) Make reasonable arrangements on residential land and persist on banning land supply for real estate development projects for villas. Strictly prohibit unauthorized conversion of agricultural land into construction land.
- f) Strengthen supervision and inspection of intensive land use conservation.
- g) Discourage financial institutions from granting loans and providing finance to property development enterprises whose real estate development project is less than one quarter invested, occupies an area less than one third and/or was commenced over one year after the project commencement date, in each case as stipulated in the contract for the assignment of land.

(b) Planning of a property project

According to the Measures for Control and Administration of the Grant and Transfer of the Right to Use Urban State-owned Land (城市國有土地使用權出讓轉讓規劃管理辦法) promulgated by the MOC on December 4, 1992 and implemented on January 1, 1993 and the Notice of the Ministry of Construction on Strengthening the Planning Administration of the Grant and Transfer of the 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) promulgated by the MOC on December 26, 2002, after signing the contract for the assignment of land use rights, a property development enterprise shall apply for a project survey and a construction land planning permit from the city planning authority. After obtaining a construction land planning permit, a property development enterprise shall organize the necessary planning and design work in accordance with planning and design requirements and apply for a construction works planning permit from the city planning authority.

The Urban and Rural Planning Law (城鄉規劃法), promulgated by the Standing Committee of the National People's Congress in October 2007 which became effective in January 2008, provides regulations with respect to the formulation, implementation, modification, control, supervision and related legal liability of measures aimed at curbing problems that may arise as a result of conflicts between city and rural construction developments. The scope of the measures includes the planning, layout and construction of cities, towns with administrative status, market towns and villages. In order to effectively prevent construction that is in breach of rules and regulations, the Urban and Rural Planning Law stipulates that where any construction project is commenced without obtaining Construction Land Planning Permit, or where Construction Land Planning Permit has been obtained but construction has proceeded not in accordance with that permit, the Urban and Rural Planning Department at the county level or above may issue an order to cease construction. In the case that the construction can be remedied to conform to the relevant planning rules, an order can be made to rectify the construction in a prescribed period of time and a fine totaling between 5% to 10% of the total construction cost may be imposed. Where the construction cannot conform to relevant planning rules, an order for its demolition will be issued or, where demolition is not possible, the property and/or illegal income derived from the property will be confiscated and a fine totaling 10% or less of the construction cost will be imposed.

In November 2009, the Ministry of Housing and Urban-Rural Development and the Office of the Leading Group for Addressing Problems Regarding Unauthorized Change of Planning and Adjustment of the Floor Ratio in Real Estate Development under the Ministry of Supervision jointly promulgated the Notification on Further Implementation of the Special Project to Address Problems Regarding Unauthorized Changes to the Planning and Adjustment of the Floor Area Ratio (關於深入推進房地產開發領域違規變更規劃調整容積率問題專項治理的通知) which re-emphasized the need to rectify, investigate and punish property development enterprises which undertake any unauthorized adjustment of the floor area ratio.

(c) Construction of a property project

According to the Measures for the Administration of Construction Permits for Construction Projects (建築工程施工許可管理辦法) promulgated by the MOC on October 15, 1999 and as amended and implemented on July 4, 2010, after obtaining the construction works planning permit, a property development enterprise shall apply for a construction works commencement permit from the construction authority under the local people's government at the county level or above. The Notice Regarding the Strengthening and Regulation of the Management of New Projects (關於加強和規範新開工項目管理的通知), promulgated by the General Office of the State Council on November 17, 2007, strictly regulates the conditions for commencing investment projects, establishes a mechanism for the coordination of government departments regarding new projects, and strengthens the statistics and information management while intensifying the supervision and inspection of new projects.

(d) Completion of a property project

According to the Development Regulations and the Regulation on the Quality Management of Construction Projects (建設工程質量管制條例) promulgated by State Council on January 30, 2000, the Interim 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暫行辦法) promulgated by the MOC in April 2000 and the Interim Provisions on 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暫行規定) promulgated by the MOC on June 30, 2000, after the completion of construction of a project, the property must undergo inspection and receive relevant approvals from local authorities including planning bureaus, fire safety authorities and environmental protection authorities. Thereafter, the property development enterprise shall apply for at the property development authority under the people's government at the county level or above for a certificate of completion. Once the examination has been completed, a Record of Acceptance Examination upon Project Completion (項目竣工驗收報告) will be issued.

According to the Notice on Further Strengthening the Quality Supervision and Management of Construction Projects (關於進一步加強建築工程質量監督管理的通知) promulgated by the MOC on April 14, 2009, the legal regulatory framework and the supervision system in respect of quality supervision and completion acceptance examination shall be further improved.

E. Transfer and Sale of Property

(i) *Transfer of property*

According to the Urban Property Law and the "Provisions on Administration of Transfer of Urban Property" (城市房地產轉讓管理規定) promulgated by the MOC on August 7, 1995 and as amended on August 15, 2001, a property owner may sell, bequeath or otherwise legally transfer property to another person or legal entity. When transferring the title to a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred simultaneously. The parties to a transfer shall enter into a property transfer contract in writing and register the transfer with the property 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 were originally obtained by assignment, the real property may only be transferred on the condition that: a) the assignment price has been paid in full for the assignment of the land use rights as provided by the contract for the assignment of the land and a land use rights certificate has been obtained; b) development has been carried out according to the contract for the assignment of the land 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.

If the land use rights were originally obtained by assignment, the term of the land use rights after transfer of the property shall be the remaining portion of the original term provided by the contract for the assignment of the land after deducting the time that has been used by the former land user(s). In the event the transferee intends to change the use of the land provided in the original contract for the assignment of the land, consent shall first be obtained from the original grantor and the planning administration authority under the local government of the relevant city or county and an agreement to amend the assignment contract or a new contract for the assignment of the land shall be signed in order to, amongst other matters, adjust the land use rights assignment price accordingly.

If the land use rights were originally obtained by allocation, transfer of the real property shall be subject to the approval of the government vested with the necessary approval power as required by the State Council. Upon such approval, the transferee shall complete the formalities for transfer of the land use rights, unless the relevant statutes require no transfer formalities, and pay the transfer price according to the relevant statutes.

(ii) Sale of commodity buildings

Under the “Regulatory Measures on the Sale of Commodity Buildings” (商品房銷售管理辦法) promulgated by the MOC on April 4, 2001 and implemented on June 1, 2001, sale of commodity buildings can include both pre-completion sales (pre-sale) and post-completion sales.

(a) Permit for Pre-sale of Commodity Buildings

According to the Development Regulations and the Measures for Administration of Pre-sale of Commodity Buildings (城市商品房預售管理辦法) (the “Pre-sale Measures”) promulgated by the MOC on November 15, 1994 and as amended on August 15, 2001 and July 20, 2004, the pre-sale of commodity buildings shall be subject to a licensing system, and a property development enterprise intending to sell a commodity building before its completion shall register with the property development authority of the relevant city or county to obtain a pre-sale permit. A commodity building may be sold before completion only if: a) the assignment price has been paid in full for the grant of the land use rights involved and a land use rights certificate has been obtained; b) a construction works planning permit and construction works commencement permit have been obtained; c) the funds invested in the development of the commodity buildings put to pre-sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been ascertained; and d) the pre-sale has been registered and a pre-sale permit has been obtained.

In addition, according to the Regulations on the Administration of Pre-sale of Commodity Buildings of Guangdong Province (廣東省商品房預售管理條例) promulgated by the Standing Committee of the Guangdong Provincial People’s Congress on August 22, 1998 and as amended on October 14, 2000 and the Notice on Adjusting the Regulations on the Provision of Images Depicting the Progress of Construction of Pre-Sale Commodity Building Projects in Guangdong Province (廣東省關於調整商品房預售專案工程形象進度條例的通知) issued by Guangdong Provincial Construction Bureau in January 2001, the following conditions shall be fulfilled for pre-sale of commodity buildings in Guangdong: a) a real property development qualification certificate and a Business License have been obtained; b) the construction quality and safety monitoring procedures have been performed; c) the construction of the basic superstructure and the topping-out have been completed in respect of properties of not more than seven stories (including seven stories), and at least two-thirds of the basic superstructure has been completed in respect of properties of more than seven stories; d) a special property pre-sale account with a commercial bank in the place where the project is located has been opened; and e) the pre-sale properties and the land use rights for the project are free from any third party rights.

According to the Rules for the Transfer of Real Estate in the Shenzhen Special Economic Zone (深圳經濟特區房地產轉讓條例) promulgated by the Standing Committee of the Shenzhen Municipal Congress in July 1993 and amended in June 1999, the following conditions shall be fulfilled for the pre-sale of commodity buildings: a) land use rights have been lawfully registered and a real property certificate obtained; b) a construction works planning permit and a construction works commencement permit have been obtained; c) the full assignment price for the land use rights and at least 25 percent of the total project investment of the construction development must have been paid and certified by an accountant; d) the property development enterprise and the financier must have signed an agreement to supervise the receipt of funds from pre-sales; and e) the land use rights must have not been mortgaged or where a mortgage did exist it must have been discharged.

Pursuant to the Implementation Opinion in Respect of Enforcing the Administration of Presales of Urban Commodity Properties (關於加強城市商品房預售管理的實施意見) promulgated by the Construction Commission of Sichuan Province on March 10, 2000, the pre-sale of commodity property in Sichuan Province shall comply with the following conditions: a) all premiums for the assignment of the land use rights (other than land supplied by way of allocation in accordance with the State laws) must have been paid and the land use rights certificate must have been obtained; b) a construction works planning permit must have been obtained; c) for a commodity property project with six stories or less, construction of the foundation and basic superstructure must have been completed; for a non-residential project with six stories or less and a commodity property project with six stories or more, the construction of the foundation and the first story of the basic superstructure must have been completed; and the foundation and the first six stories of the superstructure works of a project without a basement must have been completed; and d) the works schedule and date of completion delivery have been determined.

According to the Tianjin City Administration Rules for Commodity Housing (天津市商品房管理條例) promulgated on October 24, 2002 and effective from December 1, 2002, the sale of commodity housing includes both pre-sales and post-completion sales. Property development enterprises applying for a permit to sell commodity housing must comply with the following conditions: a) attainment of legal person status and the requisite class of qualifications for property development; b) possession of lawful rights to the use of state owned land; c) examination and approval of an investment plan for the construction of commodity housing, a construction engineering plan and a construction license; d) payment of fees for the completion of basic installations in accordance with relevant laws; e) possession of copies of property management plans for which registration has been completed or signed agreements for future property management arrangements; f) certification from government departments that the commodity housing building development has attained requisite image standards; g) provision of a timetable for the progress of construction and the completion date; and h) provision of a sales plan.

According to the Regulations on Administration of Sales of Urban Commodity Buildings in Jiangsu Province (江蘇省城市房地產交易管理條例) promulgated by the Standing Committee of Jiangsu Provincial People's Congress on February 5, 2002, the following conditions shall be fulfilled for the pre-sale of commodity buildings: (i) the Business License for an enterprise as a legal person and a real property development qualification certificate have been obtained; (ii) the assignment price for the relevant land use rights has been paid in full and a land use rights certificate has been obtained; (iii) a construction works planning permit and a construction works commencement permit have been obtained; (iv) the funds invested in the development of commodity buildings put to presale represent 25% or more of the total investment in the project and the works schedule and the completion and delivery dates have been determined.

According to the Notice on Strengthening the Administration of Permits for the Pre-Sale of Commodity Housing (關於加強商品房預售許可證管理有關問題的通知), issued by the Beijing Municipal Bureau of Land and Resources on June 18, 2004, the following materials must be presented by a property development enterprise when applying for a pre-sale permit: (i) a Business License; (ii) the requisite qualification certificates for the relevant class of property development enterprise; (iii) a land use rights certificate; (iv) proof of full payment of the land transfer fee; (v) a construction works planning permit issued by the planning authority as well as general layout plans for the project; (vi) a construction works commencement permit; (vii) a copy of the construction contract; (viii) proof from the receiving bank that the funds invested in the development of commodity buildings put to presale represent 25% or more of the total investment in the project; (ix) a pre-sale program as well as building plans for pre-sale commodity units; and (x) certification from a recognized entity that the project complies with relevant standards (were applicable).

According to the Regulations on the Administration of Sales of Urban Commodity Buildings in Yunnan Province (雲南省城市房地產開發交易管理條例), issued by the Standing Committee of Yunnan Province on September 22, 2000, and revised on December 2, 2005, depending on the scale of a construction project, pre-sale permits are issued by the relevant city or county construction administration authority. Funds received through pre-sales must be used for the construction of the project.

(b) Supervision of pre-sale income of commodity buildings

According to the Pre-sale Measures, the income of a property development enterprise from the pre-sale of commodity buildings must be used for the construction of the relevant project. The specific measures for the supervision of the income from the pre-sale of commodity buildings shall be formulated by the relevant property administration authorities.

(c) Conditions of the sale of post-completion commodity buildings

Under the regulatory Measures on the Sale of Commodity Buildings (商品房銷售管理辦法), commodity buildings may be put to post-completion sale only when the following preconditions have been satisfied: a) the property development enterprise shall have a Business License and a qualification certificate of a property development enterprise; b) the enterprise shall obtain a land use rights certificate or other approval documents for land use; c) the enterprise shall have the construction works planning permit and construction works commencement permit; d) the building shall have been completed, inspected and accepted as qualified; e) the relocation of the original residents shall have been completed; f) the provision of essential facilities for supplying water, electricity, heating, gas, communication, etc. shall have been made ready for use, and other essential utilities and public facilities shall have been made ready for use, or a date for their construction and delivery shall have been specified; g) the property management plan shall have been completed.

Before the post-completion sale of a commodity building, a property development enterprise shall submit the Property Development Project Manual and other documents evidencing the satisfaction of preconditions for post-completion sale to the property development authority.

(d) Regulations on transactions of commodity buildings

According to the Development Regulations and the Pre-sale Measures, for the pre-sale of commodity buildings, the developer shall sign a contract on the pre-sale of a commodity building with the purchaser. The developer shall, within 30 days after signing the contract, apply for registration and filing of the pre-sale commodity building with the relevant property administration authorities.

Pursuant to the Circular of the General Office of the State Council on Forwarding the Opinions of the Ministry of Construction and other Departments on Stabilizing House Prices (國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知) issued on May 9, 2005:

- a) A buyer of a pre-sold commodity building is prohibited from conducting any further transfer of the commodity building before construction has been completed and a property ownership certificate obtained. If there is a discrepancy in the name of the applicant for property ownership and the name of the advance buyer in the pre-sale contract, the property administration authorities shall not register the application for property ownership.
- b) A real name system is applied for each property purchase transaction and an immediate archival filing network system is in place for pre-sale contracts of commodity buildings.

On July 6, 2006, the MOC, the NDRC and SAIC jointly promulgated the Notice on Reorganizing and Regulating Real Estate Transaction Procedures (關於進一步整頓規範房地產交易秩序的通知), the details of which are as follows:

- a) A property development enterprise may start to sell the commodity buildings within 10 days after receiving a pre-sale permit. Without this permit, the pre-sale of commodity buildings is prohibited, as is the subscription to (including reservation, registration and number selecting) or acceptance of any kind of pre-sale payments.
- b) The property administration authority should establish a network system for pre-sale contracts of commodity buildings. The system should include the location and basic information of the commodity building and the schedule for the sale. The buyer of a pre-sale commodity building is prohibited from conducting any further transfer of the commodity building while it is still under construction.
- c) The pre-sale of commodity buildings must not be advertised without a pre-sale permit.
- d) Property development enterprises with a record of serious irregularity or developers who do not satisfy the requirements of the pre-sale of commodity buildings are not allowed to take part in pre-sale activities.
- e) Property administration authorities should strictly carry out the regulations of the pre-sale registration and apply the real name system for house purchases.

(iii) Mortgages of Property

Under the Urban Property Law, the Guarantee Law of the People's Republic of China (中華人民共和國擔保法) promulgated by the Standing Committee of the National People's Congress on June 30, 1995 and implemented on October 1, 1995, and the Measures on the Administration of Mortgages of Property in Urban Areas (城市房地產抵押管理辦法) promulgated by the MOC in May 1997 and as amended on August 15, 2001, when a mortgage is lawfully created on a building, a mortgage shall be simultaneously created on the land use rights of the land on which the building is situated. When the land use rights acquired through means of assignment are being mortgaged, the buildings on the land shall be simultaneously mortgaged. The land use rights of town and village enterprises cannot be mortgaged. When buildings owned by town and village enterprises are mortgaged, the land use rights occupied by the buildings shall at the same time also be mortgaged. The mortgagor and the mortgagee shall sign a mortgage contract in writing. Within 30 days after a property mortgage contract is signed, the parties to the mortgage shall register the mortgage with the property administration authorities at the location where the property is situated. A property mortgage contract shall become effective on the date of registration of the mortgage. If a mortgage is created on property in respect of which a house ownership certificate has been obtained, the registration authority shall make an entry under the "third party rights" item on the original house 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 under construction, the registration authority shall record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved shall re-register the mortgage after the issuance of certificates evidencing the ownership of the property.

(iv) Leases of buildings

Under the Urban Property Law and the Measures for Administration of Leases of Property in Urban Areas (城市房屋租賃管理辦法) promulgated by the MOC on May 9, 1995 and with effect from June 1, 1995, the parties to a lease of a building shall enter into a written lease contract. A system has been adopted to register the leases of buildings. When a lease contract is signed, amended or terminated, the parties shall register the details with the property administration authority under the local government of the city or county in which the building is situated.

F. Property Credit

According to the Notice of the People's Bank of China on Regulating House Financing Businesses (中華人民共和國關於規範住房金融業務的通知) promulgated by the PBOC on June 19, 2001, all banks must comply with the following requirements before granting residential development loans, individual house mortgage loans and individual commercial flat loans:

- a) Banks shall only grant housing development loans to property development enterprises with approved development qualifications and high credit ratings. Such loans shall be offered to residential projects with good market potential. While the borrowing enterprise must have self-owned capital of no less than 30% of the total investment required for a project, the project itself must have been issued with a land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit.
- b) In respect of the grant of individual mortgage backed home loans, the ratio between the loan amount and actual value of the security (the "Mortgage Ratio") must not exceed 80%. Where an individual applies for a home loan to buy a pre-sale property, the property must have achieved the stage of "topping-out of the main structure" for multi-story buildings or "two-thirds of the total investment completed" for high-rise buildings.
- c) In respect of the grant of individual commercial flat loans, the Mortgage Ratio must not exceed 60% with a maximum loan period of ten years and the relevant commercial flat must have already been completed.

The PBOC issued the Circular on Further Strengthening the Management of Property Loans (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 residential development, individual home mortgages and individual commodity buildings as follows:

- a) Property loans by commercial banks to property development enterprises shall be granted only in respect of a particular item of property development rather than to meet cash flow or other financing demands. Loans of any kind must not be granted for projects which do not obtain a land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit.
- b) Commercial banks shall not grant loans to property development enterprises to pay off land premiums.
- c) Commercial banks may only provide housing loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for an individual home loan for their first residential unit, the minimum first installment remains unchanged at 20%. In respect of a loan application for any additional purchase of a residential unit(s), the percentage of the first installment shall be increased.

Pursuant to the Guidance on Risk Management of Property Loans from Commercial Banks (商業銀行房地產貸款風險管理指引) issued by the CBRC on September 2, 2004, any property development enterprise applying for property development loans shall have at least 35% of the capital required for the development.

According to the Notice of the People's Bank of China on the Adjustment of Commercial Bank Housing Credit Policies and the Interest Rate of Excess Reserve Deposits (中國人民銀行關於調整商業銀行住房信貸政策和準備金存款利率的通知) promulgated by the PBOC on March 16, 2005, from March 17, 2005, in cities and areas where there has been a rapid increase in house prices, the minimum first installment for individual house loans increased from 20% to 30%. Commercial banks can independently determine the particular cities or areas under such adjustment according to the specific situation in different cities or areas.

On May 24, 2006, the State Council issued the Opinions of the Ministry of Construction and other Departments on Adjusting the Housing Supply Structure and Stabilizing Housing Prices (關於調整住房供應結構穩定住房價格的意見). The regulations relating to property credit are as follows:

- a) Strict credit conditions shall be imposed on property development enterprises. In order to suppress the ability of property development enterprises to store up land and housing resources, commercial banks shall not provide loans to those property enterprises that fail to meet loan conditions, such as having a project capital of less than 35%. For property development enterprises that have large volumes of idle land and vacant commodity buildings, the commercial banks shall, in light of the principle of prudential operations, be stricter in controlling the renewal of loans or any form of revolving credit. The commercial banks shall not accept any commodity building that has been idle for three or more years as collateral for loans.
- b) From June 1, 2006, the minimum first installment for individual home loans shall not be lower than 30%. However, considering the demands for housing by the medium and low-income population, the purchase of owner occupied housing with a gross floor area of no more than 90 square meters is still subject to the requirement to provide a deposit of 20%.

According to the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Property Market, foreign-invested property enterprises which have not paid up their registered capital, failed to obtain a land use rights certificate, or which have less than 35% of the capital for the project, will be prohibited from obtaining a loan in or outside China, and SAFE shall not approve the registration of foreign loans from such enterprises.

On September 27, 2007, the PBOC and the CBRC issued the Notice on Strengthening the Management of Commercial Real Estate Credit and Loans (關於加強商業性房地產信貸管理的通知) (the “Notice”). The Notice puts forward requirements for the purpose of strengthening processes for loan management, including by means of credit checks, monitoring of real estate loans and risk management, in respect of (i) real estate development, (ii) land reserves, (iii) housing consumption and (iv) the purchase of commercial buildings.

Pursuant to the Notice, commercial banks shall not grant loans in any form, to (i) projects where the capital funds (owner’s equity) constitutes less than 35%, or, projects without a land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit; and (ii) property development enterprises that have been hoarding land and housing resources, as detected and verified by land resources departments and construction authorities. Furthermore, commercial banks are not permitted to accept commodity buildings with a vacancy exceeding three years as collateral for a loan, and may not grant property development enterprises any loans for the payment of relevant land assignment premiums.

In respect of loans for individual housing consumption, commercial banks are only permitted to grant housing loans to individuals who purchase commodity buildings the construction of which have reached the “topping out of the main structure” stage. Where an individual purchases his or her first commodity apartment for self residence purpose, (i) of a construction area is below 90 square meters, the minimum first installment shall be fixed at no less than 20%; and (ii) if the construction area is above 90 square meters, the minimum first installment shall be fixed at no less than 30%. Where an individual has purchased a commodity apartment by means of such loan and proceeds to purchase a second (or more) home, the minimum first installment shall be no less than 40% and the interest rate shall not be under 110% of the benchmark interest rate as announced by the PBOC during same period and in same bracket. Further, the minimum first installment and the interest rate shall both rise with the increase in the number of homes purchased, with the increased percentage rates to be determined by commercial banks, at their own discretion, according to principles of loan risk management. However, the monthly repayments for housing loans shall not exceed 50% of the individual borrower’s monthly income.

In respect of commercial building loans, commercial buildings purchased by loan shall be buildings that have satisfied procedural requirements of completion inspection and acceptance. For such purchase, the minimum first installment shall be no less than 50%, the loan term shall not exceed ten years and the interest rate shall not be under 110% of the benchmark interest rate as announced by the PBOC during the same period and in same bracket. Where a loan application is made in the name of a “commercial and residential building”, the minimum first installment shall be no less than 45% and the loan term and interest rate shall be arranged according to relevant regulations.

The Supplemental Notice on Strengthening the Management of Commercial Real Estate Credit and Loans (關於加強商業性房地產信貸管理的補充通知) (the “Supplemental Notice”), jointly issued by the PBOC and the CBRC and dated December 5, 2007, sets forth supplemental requirements in respect of strengthening housing consumption loan management, mainly including the following:

- a) Assess the number(s) of housing loan with the borrower’s family as the basic calculation unit.
- b) Stipulate conditions under which the housing loan policy for first home buyers shall serve as the referential basis for bank loans.
- c) Where a family that has already purchased a commodity apartment via housing provident fund makes a housing-loan application to commercial banks, the requirements set forth in the Notice shall be duly satisfied in accordance with the Notice.

As stipulated in the Supplemental Notice, in the event an applicant is found to have presented false information and certifications, all commercial banks shall deem the loan application unacceptable.

Since the second quarter of 2008, the PRC government has implemented a series of policies intended to strengthen and improve the sound development of the real estate market.

On May 26, 2008, the CBRC issued the Notice on Further Strengthening Risk Management in the Provision of Credit to the Real Estate Market (Yin Jian Fa No.42[2008]) (關於進一步加強房地產行業授信風險管理的通知). To combat property development enterprises who (i) “falsify mortgages” by using forged property sale contracts; (ii) process “falsified down payments” from borrowers by accepting initial repayments in the pre-sale stage, paying for buyers in advance or by other means; or (iii) mislead banks about decisions over the provision of loans by forging their sale performances or house prices as well as other problems arising in the real estate market, the Notice requires each commercial bank to:

- a) strictly follow the policies and conditions related to the provision of loans to individuals;
- b) improve the monitoring of the qualifications of borrowers;
- c) rigorously examine the enterprise credit ratings of property development enterprises; and
- d) upon discovering that a property development enterprise has engaged in the “falsification of mortgages”, “falsification of down payments”, “forgery of house prices” or other such behavior, terminate the individual housing loans or development loans extended to such developer. Property development enterprises suspected of committing such crimes shall be referred to the judicial organs for further investigation.

On October 22, 2008, the People’s Bank of China issued the Circular on the Expansion of the Downward Adjustment Range for Interest Rates of Commercial Individual Mortgage Loans and Related Issues (中國人民銀行關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知) which decreased the minimum first installment for residential property purchasers to 20% and reduced the minimum mortgage loan rates for such purchases to 70% of the benchmark interest rate starting from October 27, 2008.

On December 20, 2008, the General Office of the State Council issued Several Opinions on Promoting the Sound 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 provides the following regarding loans for property businesses:

- a) The purchase of regular commodity houses for residential purposes is to be encouraged. In addition to extending favorable interest rates and loan policies to first time buyers of apartments for self-residential purposes, individuals with an existing home in which the per person floor area is smaller than the local average may buy a second apartment for self residential purposes under favorable loan terms similar to those that apply to first-time buyers. If individuals purchase a second apartment or more for any other purpose, the interest rate shall be determined according to potential risks by commercial banks and based on the benchmark interest rate.
- b) The proper financing requirements for property development enterprises should be adhered to. Commercial banks shall increase credit financing services available to ordinary commercial housing construction projects, provide financial support and other related services to property development enterprises engaged in merger and restructuring activities, and support the approval of bond issuances by property development enterprises.

The State Council issued the Notice on Adjusting the Minimum Capital Requirement for Capital Funding for Fixed Assets Investment (關於調整固定資產投資項目資本金比例的通知) on May 25, 2009, which provides for the reduction of the minimum capital requirement for affordable residential housing projects and regular commodity residential houses from 35% to 20%, and for other property projects to 30%. When providing credit finance support and services, financial institutions shall determine, at their own discretion, whether to grant a loan and the amount of the loan having regard to the minimum capital requirement as determined by the state.

On June 19, 2009, the CBRC issued the Notice on Further Strengthening the Risk Management of Mortgage Loans (Yin Jian Fa No.59[2009]) (關於進一步加強按揭貸款風險管理的通知). With regard to current problems in the real estate market, particularly in the area of mortgage loans such as “falsified mortgages”, “falsified down payments”, “forged house prices” and the relaxed enforcement of criterion for “loans for a second house”, the Notice reiterates the following requirements:

- a) banking institutions shall strictly carry out pre-loan examinations and tighten the criterion for granting a loan in order to prevent the occurrence of such behavior as “falsified mortgages”, “falsified down payments”, and “forged house prices”;
- b) banking institutions shall proceed to focus on supporting the purchase by individuals of their first commodity house for self-residence purposes and shall not circumvent relevant restrictions with regard to the provision of loans for a second (or more) house by claiming that a national network for credit information collection is not available or that cross-regional investigations into the purchaser’s background is difficult or onerous; and
- c) banking institutions are not entitled to decide the criterion for identifying “loans for a second house” or to lower the minimum first installment indirectly by any means.

On April 17, 2010, the State Council issued the Notice on Firmly Preventing Property Prices from Increasing too rapidly in Certain Cities (國務院關於堅決遏制部分房價過快上漲的通知), pursuant to which the State Council raised the minimum first installment for second home purchases to 50% and set a minimum 30% first installment on first homes with a GFA of more than 90 square meters. Further, the notice also stipulates that interest rates for mortgage loans for second homes cannot be lower than 110% of PBOC benchmark lending rate; and Interest rates for mortgage loans and minimum first installments for third or subsequent homes shall be increased substantially.

G. Insurance of a Property Project

There are no mandatory provisions in PRC laws, regulations and government rules which require a property development enterprise to take out insurance policies for its property projects. However, PRC commercial banks may require the property development enterprise to purchase insurance if the commercial bank intends to grant a development loan to the property development enterprise.

H. Environmental Protection

Pursuant to the requirements of relevant laws and regulations such as the Appraisal Measures for the Impact on the Environment of the PRC (中華人民共和國環境影響評價法) implemented by the Standing Committee of the National People's Congress in September 2003, and the Regulations Governing Environmental Protection of Construction Projects (建設項目環境保護管理條例) implemented by the State Council in November 1998, property development enterprises and construction enterprises must carry out an appraisal of the impact the construction project will have on the environment. The relevant project shall not commence until approval is obtained from the supervisory body for environmental protection. While the project is in progress, the developer should also comply with the appraisal documents relating to the impact on the environment and implement the environmental protection measures set out in the opinion of the supervisory body for environmental protection. Such measures must be incorporated into the design, construction and operation of the general construction. Upon completion of the project, the developer should apply to the supervisory body for environmental protection for the inspection and acceptance of the completed environmental protection facilities. Only those projects that have been inspected and accepted may go into operation or be available for use.

I. Construction Safety

Under relevant laws and regulations such as the Laws for Safe Production in the PRC (中華人民共和國安全生產法) promulgated by the Standing Committee of the National People's Congress in November 2002 and the Regulations of the Construction Safety of Shenzhen Special Economic Zone (深圳經濟特區建設工程施工安全) promulgated by the Standing Committee of the People's Congress of Shenzhen in March, 2003 and amended on June 25, 2004, the property development enterprise should apply to the supervisory department on safety for the registration of supervision for work safety in construction before the commencement of construction. Constructions without such registration will not be granted a construction works commencement permit by the supervisory body. Contractors for the construction should establish the objectives and measures for work safety and improve the working environment and conditions of workers in a planned and systematic way. A work safety protection scheme should also be set up to carry out the work safety job responsibility system. At the same time, contractors should adopt corresponding site work safety protective measures according to the work protection requirements in different construction stages and such measures shall comply with the labor safety and hygiene standards of the State.

Under the Construction Law of the People's Republic of China (中華人民共和國建築法), the construction contractor assumes responsibility for the safety of the construction site. The main contractor will take overall responsibility for the site, and the subcontractors are required to comply with the protective measures adopted by the main contractor.

J. Major Taxes Applicable to Property Development enterprises

(i) Income tax

According to the Income Tax Law of The People's Republic of China for Foreign-invested Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外商企業所得稅法) which was promulgated by National People's Congress on April 9, 1991 and implemented on July 1, 1991 and its detailed rules promulgated by State Council on June 30, 1991, the income tax on enterprises with foreign investment shall be computed on the taxable income at the rate of 30%, and local income tax shall be computed on the taxable income at the rate of 3%.

Pursuant to the Provisional Regulations of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例) issued by the State Council on December 13, 1993 and enforced on January 1, 1994 and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例實施細則) issued by the MOF on February 4, 1994, the income tax rate applicable to Chinese enterprises other than foreign-invested enterprises and foreign enterprises is 33%.

According to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) enacted by the National People's Congress on March 16, 2007 and enforced from January 1, 2008 onwards, a unified income tax rate of 25% will be applied towards foreign investment and foreign enterprises which have set up institutions or facilities in the PRC as well as PRC enterprises. The Income Tax Law of The People's Republic of China for Foreign-invested Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外商企業所得稅法) and the Provisional Regulations of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例) were thereby annulled.

Under the EIT Law, enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and will generally be subject to the unified 25% enterprise income tax rate as to their global income.

(ii) Business tax

Pursuant to the Interim 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) promulgated by the State Council on December 13, 1993, amended on November 5, 2008, and implemented on January 1, 2009, and the 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 MOF on December 25, 1993 and amended and implemented on January 1, 2009, the tax rate applicable to the transfer of real properties, their superstructures and attachments is 5%.

In accordance with Notice on the Adjustment of Business Tax for the Transfer of Individual Homes (關於調整個人住房轉讓營業稅政策的通知) promulgated by the MOF and the SAT on December 22, 2009, from January 1, 2010, individuals who purchased their house for self-residential purposes may, five or more years after the purchase, resell their house without paying business tax. Individuals who have owned their self-residential house for less than five years shall pay business tax on the net profit (the difference between the original price and the sales price). Individuals who have purchased their house for any purpose other than self-residential shall, if they have owned it for five years or more, pay business tax on the net profit or, if they have owned it for less than five years, on the full sale price.

(iii) Land appreciation tax

According to the requirements of the Provisional Regulations of The People's Republic of China on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例) (the "Land Appreciation Tax Provisional Regulations") which were promulgated on December 13, 1993 and came into effect on January 1, 1994, and the Detailed Implementation Rules on 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實施細則) (the "Land Appreciation Tax Detailed Implementation Rules") which were promulgated and came into effect on January 27, 1995, any capital-gain from a transfer of property shall be subject to land appreciation tax. Land appreciation tax shall be charged at four levels of progressive rates: 30% for the appreciation amount not exceeding 50% of the sum of deductible items; 40% for the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% for the appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% for the appreciation amount exceeding 200% of the sum of deductible items. Deductible items include the following:

- a) amount paid for obtaining the land use rights;
- b) costs and expenses for the development of the land;
- c) costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;

- d) related tax payable for the transfer of property; and
- e) other deductible items as specified by the MOF.

According to the requirements of the Land Appreciation Tax Provisional Regulations, the Land

Appreciation Tax Detailed Implementation Rules and the Notice on the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts signed before January 1, 1994 (關於對1994年1月1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) issued by the MOF and the SAT on January 27, 1995, land appreciation tax shall be exempted under any of the following circumstances:

- a) The construction of ordinary standard residences for sale (i.e. the residences built in accordance with the local standards for residential properties. Deluxe apartments, villas, resorts etc. do not come under the category of ordinary standard residences) where the appreciation amount does not exceed 20% of the sum of deductible items;
- b) property is repossessed according to laws due to the construction requirements of the State;
- c) due to redeployment of work or improvement of living standard, individuals transfer self used residential property, in which they have been living for 5 years or more, subject to tax authorities' approval;
- d) transfers of real properties under property transfer contracts signed before January 1, 1994, regardless of when the properties are transferred;
- e) if the property development contracts were signed before January 1, 1994 or the project proposal has been approved and capital was injected for development in accordance with the conditions agreed, the Land Appreciation Tax shall be exempted if the properties are transferred for the first time within 5 years after January 1, 1994. The date of signing the contract shall be the date of signing the sale and purchase agreement. The tax-free period may be prolonged subject to the approval of the MOF and the SAT for particular property projects which are approved by the government for the development of the whole lot of land and long-term development and in which the properties are transferred for the first time after the 5-year tax-free period.

On December 24, 1999, the MOF and the SAT issued the Notice in respect of the Extension of the Period for the Land Appreciation Tax Exemption Policy (關於土地增值稅優惠政策延期的通知) which extended the period for the land appreciation tax exemption policy mentioned above to the end of 2000.

After the issuance of the Land Appreciation Tax Provisional Regulations and the Land Appreciation Tax Detailed Implementation Rules, due to the longer period for property development and transfer, many districts, while they were implementing the regulations and rules, did not require property development enterprises to declare and pay the land appreciation tax. Accordingly, the MOF, the SAT, the MOC and the MLR separately and jointly issued several notices to restate the following: after the land grant contracts are signed, the taxpayers should declare the tax to the local tax authorities where the property is located, and pay land appreciation tax in accordance with the amount as calculated by the tax authority. For those who fail to acquire proof of payment or exemption from land appreciation tax from the tax authorities, the property administration authority shall not process the relevant title change procedures, and shall not issue the property title certificate.

The SAT also issued the Notice on the Strict Handling of the Administration of the Collection of Land Appreciation Tax (關於認真做好土地增值稅徵收管理工作的通知) on July 10, 2002 to request local tax authorities to: modify the management system of land appreciation tax collection; build up a sound taxpaying declaration system for land appreciation tax; and modify the methods of pre-levying tax for the pre-sale of properties. The Notice also pointed out that for property development contracts which were signed before January 1, 1994 or where the project proposal has been approved and capital was injected for development, the policy for exemption from land appreciation tax exemption for properties

that are transferred for the first time is no longer in effect and the tax shall be levied again. This requirement is restated in the Notice on Strengthening of Administration of the Collection of Land Appreciation Tax (關於加強土地增值稅管理工作的通知) and the Notice on Further Strengthening the Administration of the Collection of Land Appreciation Tax and Land Use Tax in Cities and Towns (關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知) issued on August 2, 2004 and August 5, 2004, respectively, by SAT. These two Notices also required that system for the declaration of land appreciation tax and the registration of the sources of the land appreciation tax should be further improved.

On March 2, 2006, the MOF and the SAT issued the Notice on Several Points on Land Appreciation Tax (關於土地增值稅若干問題的通知) to clarify relevant issues regarding land appreciation tax as follows:

- a) Standards for the transfer of ordinary standard residential houses. Where any development project includes ordinary residential houses as well as other commercial houses, the amount of land appreciation shall be verified for both commercial and residential houses, respectively. No adjustment shall be retroactively made to any application for tax exemption for ordinary standard residential houses that were filed with the tax authority at the locality of the property prior to March 2, 2006, especially for ordinary standard residential houses which had been exempted from land appreciation tax as according to standards determined by the people's government of a province, autonomous region or municipality directly under the Central Government.
- b) Standards for the collection and settlement of land appreciation tax:
 - (i) All regions shall decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the value of the property as well as the market development level within the region and on the basis of the specific housing categories, namely, ordinary standard residential houses, non-ordinary standard residential houses and commercial houses. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up.
 - (ii) As to any tax that fails to be collected in advance within the advance collection term, overdue fines shall be collected as of the day following the expiration of the prescribed advance collection term according to the provisions of relevant tax collection and administration law.
 - (iii) As to any property project that has been completed and has gone through the acceptance procedure, where the floor area of the property as transferred makes up 85% or more of the saleable floor area, the tax authority may require the relevant taxpayer to settle its land appreciation tax obligation for the transferred property according to the proportion between the income as generated from the transfer of property and the amount under the item of deduction. The specific method of settlement shall be prescribed by the local tax authority of a province, autonomous region or municipality directly under the Central Government, or a city under separate state planning.
 - (iv) As to any investment that uses land (property) as payment for the purchase of shares, where an enterprise involved in the investment engages in property development or where any other property development enterprise invests in commercial houses it itself builds, it shall not be governed by the regulation of the interim exemption of land appreciation tax when the property (land) is transferred to the enterprise.

On December 28, 2006, the SAT issued the 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的通知) which came into effect on February 1, 2007.

Pursuant to the Notice, a property development enterprise shall settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT rates. The LAT shall be settled for projects approved by the competent authorities; and for projects developed in different stages, the LAT shall be settled in stages. LAT must be settled if (i) the property development project has been completed and fully sold; (ii) the property development enterprise transfers the whole uncompleted development project; or (iii) the land use rights with respect to the project are transferred. In addition, the relevant tax authorities may require the property development enterprise to settle the LAT if any of the following criteria is met: (i) for completed property development projects, the transferred GFA represents more than 85% of total salable GFA, or the proportion represented is less than 85%, but the remaining salable GFA has been leased out or used by the property development enterprise; (ii) the project has not been completed sold more than three years after obtaining the sale permit or pre-sale permit; (iii) the property development enterprise applies for cancellation of the tax registration without having settled the relevant LAT; or (iv) other conditions stipulated by the tax authorities.

The Notice also indicated that if any of the following circumstances applies to a property development enterprise, the tax authorities shall levy and collect LAT as per a levying rate no lower than the pre-payment rate with reference to the bearing rate of LAT of local enterprises with a similar development scale and income level: (i) failure to maintain account books required by law or administrative regulation; (ii) destroying account books without authorization or refusing to provide taxation information; (iii) the accounts have not been properly maintained or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or the amount of deductible items; (iv) failure to go through LAT settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities can formulate their own implementation rules according to the notice and the local situation.

On May 12, 2009, the SAT issued the Administrative Rules for the Settlement of Land Appreciation Tax (土地增值稅清算管理規程) (the “Settlement Rules”), which became effective on June 1, 2009. The Settlement Rules reiterated the circumstances under which the LAT must be settled, the criteria that are to be met for relevant tax authorities to require the settlement of LAT and the circumstances under which the tax authorities shall levy and collect LAT as prescribed by the Notice. The Settlement Rules further stipulate detailed procedures for the examination and verification of the settlement of LAT to be carried out by relevant tax authorities.

In accordance with the “Guangdong Regulations on the Levy and Collection of Land Appreciation Tax” (廣東省土地增值稅徵收管理辦法), property development enterprises in Guangdong should calculate the amount of LAT on the basis of the initial capital costing of the project or the overall capital cost of the project. For pre-sales of commodity houses, it is permissible to pay LAT in advance based on a calculation of the price agreed between the parties (as evidenced in the pre-sale contract) and with reference to the construction size of the house. Once the project is completed, an additional payment towards or a partial refund of the original advance payment may be necessary once the amount of LAT is finally determined.

In accordance with the “Notice from the Shenzhen Local Taxation Bureau in respect of the Provisional Regulations regarding the Property Development Industry in Shenzhen and the Levy and Collection of Land Appreciation Tax (深圳市地方稅務局關於印發《深圳市房地產開發企業土地增值稅徵收管理暫行辦法》的通知), issued in Shenzhen on November 1, 2005, property development enterprises in Shenzhen that engage in the sale of developed real estate for profit must collect LAT. Because LAT is collected in advance and calculated as a percentage of the total income to be derived from the sale of a property, after the completion and sales of a project, an additional payment towards or a partial refund of the original advance payment may be necessary once the amount of LAT is finally determined. The deemed rate of LAT is 1% for villas, resorts and serviced apartments; and 0.5% for all other types of property developments. Where more than one type of property is included in the same development, the property development enterprise should calculate the LAT in advance on the basis of the different property types. Where this is not possible, LAT should initially be paid at the higher rate. Thereafter, at the completion of the project and after verification by their accountant, the property development enterprise should immediately submit an “LAT Calculation Report” to the responsible taxation authority.

In Sichuan, the levy and collection of LAT is governed by the “Sichuan Local Tax Administration Provisional Regulations on the Levy and Collection of Land Appreciation Tax” (四川省地方稅務局土地增值稅徵收管理暫行規定). In accordance with the provisional regulations, a person who engages in the development and sale of property must pay LAT in advance. There are two main methods for determining the amount of LAT payable: (i) the first is relevant to enterprises involved in the construction and development of residential areas and the post completion installation of facilities therein. Property development enterprises should withhold an amount for LAT based on the actual cost of the project or of the installation of the facilities; (ii) the second is relevant to pre-sales of commodity houses, in respect of which an advance payment of LAT will be calculated on the basis of the difference between the income to be received by the seller under the terms of the pre-sale contract entered into between it and the buyer and the forecast capital cost of the project. Within 10 days of settling accounts after the completion of project, property development enterprises must submit an audit report to the taxation bureau. Upon verification by the taxation bureau of the amount of LAT already paid, a supplemental payment or a partial refund of LAT may be applicable.

According to the “Tianjin Taxation Bureau Notice regarding the Levy and Collection of Land Appreciation Tax” (天津市地方稅務局關於徵收土地增值稅問題的通知), the collection of LAT was introduced in Tianjin from October 1, 2005. In respect of pre-sales of commodity houses, LAT is calculated with reference to income generated from pre-sales (based on the volume of sales as indicated by the collection of sales tax). A rate of 0.5% applies to sales of regular houses, and a rate of 1% applies to sales of high-end houses, office buildings, condos, villas and holiday resorts. Property development enterprises may wait until the full completion and sales of a whole project before completing transactions for the calculation and payment of LAT.

Pursuant to the Notice on Adjustment of Regulations on the Pre-levy of Land Appreciation Tax (江蘇省關於調整土地增值稅預徵管理辦法的通知) promulgated by the Taxation Bureau of Jiangsu Province and with effect as of January 1, 2005, LAT is imposed on entities that engage in property development and construction in Yixing City. LAT is calculated on the basis of the income generated from the sales (including income produced by pre-sales) multiplied by the respective LAT rate. A rate of 3% applies to sales of high-end apartments, resorts and villas; a rate of 2% applies to sales of office buildings and business houses; and a rate of 1% applies to sales of regular houses. When more than one type of property is included in the same development, the LAT shall be, wherever possible, calculated separately based on the different property types; otherwise the higher rate (2% or 3%) shall apply. After the completion of the project and a written application has been made by the developers, an additional payment towards or a partial refund of the original advance payment may be applicable upon verification by the taxation authority.

The Notice on the Administration of the Levy and Collection of Land Appreciation Tax (關於土地增值稅徵收管理有關問題的通知), promulgated by the Beijing Local Taxation Bureau on December 19, 2006, states that as of January 1, 2007, LAT at the flat rate of 1% shall be pre-collected in respect of all revenue received by a property development enterprise from pre-sales and sales of commodity buildings, unless such commodity buildings are government approved low cost housing or fixed price housing.

According to the Notice on Strengthening the Administration of the Levy and Collection of Land Appreciation Tax (關於進一步加強土地增值稅徵收管理有關問題的通知) issued by the Yunnan Provincial Tax Bureau on August 25, 2005, a pilot program for the pre-collection of LAT in Kunming, Zhaotong, Qujing, Wenshan, Chuxiong, Dali, Baoshan and Lincang commenced on July 1, 2005. Ordinary houses are subject to LAT at a rate between 0.5% and 1%; office buildings, commercial spaces, villas, holiday resorts, high-end apartments and other such commodity buildings are subject to LAT at a rate between 1% and 2%; the transfer of land use rights over land for development is subject to LAT at a rate between 1.5% and 3%. Upon the completion of the construction and sales of a particular project, the property development enterprise must apply to the relevant local taxation bureau for a settlement of LAT, at which stage the developer will be liable to pay any amount of outstanding LAT or, as the case may be, entitled to a refund of excess LAT.

On October 22, 2008, the MOF and the SAT issued the Circular on Taxation Policy Adjustment Concerning Real Estate Trading (關於調整房地產交易環節稅收政策的通知) and temporarily exempted the LAT for individuals selling houses starting from November 1, 2008.

(iv) *Deed tax*

Pursuant to the Interim Regulations of the People's Republic of China on Deed Tax (中華人民共和國契稅暫行條例) promulgated by the State Council on July 7, 1997 and implemented on October 1, 1997, the transferee, whether an individual or otherwise, of the title to a land site or building in the PRC shall be subject to the payment of deed tax. The rate of deed tax is 3% to 5%. The governments of provinces, autonomous regions and municipalities directly under the central government may, within the aforesaid range, determine their effective tax rates. Pursuant to the Implementation Provisions on Deed Tax in Guangdong Province (廣東省契稅實施辦法) promulgated by the People's Government of Guangdong on June 1, 1998, effective on October 1, 1997, the rate of deed tax within Guangdong is 3%. Pursuant to the Circular on the Adjustment of the Deed Tax Rate (關於調整契稅稅率的通告) promulgated by the Chengdu Financial Bureau and the Chengdu Local Tax Bureau on June 30, 1999, the deed tax rate for Chengdu is 3%. Pursuant to the Tianjin City Implementation Rules on Deed Tax (天津市契稅徵收實施辦法) promulgated by the Tianjin Municipal Government on October 1, 1997, the deed tax rate for Tianjin is 3%. Pursuant to the Implementation Rules of the Interim Regulations of the People's Republic of China on Deed Tax (江蘇省實施《中華人民共和國契稅暫行條例》辦法) promulgated by the People's Government of Jiangsu Province on November 20, 1998, the deed tax rate for Yixing City is 4%. According to the Beijing Administrative Rules on Deed Tax (北京市契稅管理規定), issued by the Beijing Municipal Government on June 27, 2002, a 3% deed tax applies in Beijing. According to the Administrative Rules on Deed Tax in Yunnan Province (雲南省契稅實施辦法), promulgated by the People's Government of Yunnan Province on May 18, 1998, a 3% deed tax is applicable in Yunnan Province.

On October 22, 2008, the MOF and the SAT issued the Circular on Taxation Policy Adjustment Concerning Real Estate Trading (關於調整房地產交易環節稅收政策的通知) which announced that the deed tax for individuals buying their first regular commodity house with a floor area of less than 90 square meters shall be temporarily reduced to a unified rate of 1% starting from November 1, 2008.

(v) *Urban land use tax*

Pursuant to the Provisional Regulations of the People's Republic of China Governing Land Use Tax in Urban Areas (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council on September 27, 1988, implemented on November 1, 1988 and amended on December 31, 2006, land use tax in respect of urban land is levied according to the area of relevant land. As of January 1, 2007, the annual tax on every square meter of urban land collected from foreign-invested enterprises shall be between RMB0.6 and RMB30.0.

(vi) *Buildings tax*

Under the Interim Regulations of the People's Republic of China on Building Tax (中華人民共和國房地產稅暫行條例) promulgated by the State Council on September 15, 1986 and implemented on October 1, 1986, building tax shall be levied at 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 payments for lease of the building.

According to the Circular Concerning the Levy of Building Tax on Foreign Enterprises and Foreigners (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 on January 12, 2009, and the Circular Concerning the Implementation of the Levy of Building Tax on Foreign-Invested Enterprise and Foreign Individuals (關於做好外資企業及外籍個人房產稅徵管工作的通知) issued by the SAT on January 6, 2009, from January 1, 2009, domestic and foreign-invested enterprises and foreign individuals will all be subject to the Interim Regulations of the People's Republic of China on Building Tax.

(vii) Stamp duty

Under the Interim Regulations of the People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例) promulgated by the State Council on August 6, 1988 and implemented on October 1, 1988, for property transfer instruments, including those in respect of property ownership transfer, the stamp duty rate shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including property title certificates and land use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

On October 22, 2008, the MOF and the SAT issued the Circular on Taxation Policy Adjustment Concerning Real Estate Trading (關於調整房地產交易環節稅收政策的通知) and temporarily exempted stamp duty for individuals selling or buying houses starting from November 1, 2008.

(viii) Municipal maintenance tax

Under the Interim Regulations of the People's Republic of China 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 on February 8, 1985, any taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 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 Foreign-invested Enterprises and Foreign Enterprises (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) issued by the SAT on February 25, 1994, the municipal maintenance tax shall not be applicable to foreign invested enterprises with foreign investment until further notice is issued by the State Council.

(ix) Education surcharge

Under the Interim Provisions on the Imposition of the Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council on April 28, 1986 and as amended on June 7, 1990 and August 20, 2005, a taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall pay an education surcharge, unless such taxpayer is instead 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 (國務院關於籌措農村學校辦學經費的通知). Under the Supplementary Notice Concerning Imposition of Education Surcharge (國務院關於教育費附加徵收問題的補充通知) issued by the State Council on October 12, 1994, the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge for Foreign-invested Enterprises and Foreign Enterprises (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) issued by the SAT on February 25, 1994, the education surcharge shall not be applicable to enterprises with foreign investment until further notice is issued by the State Council.

K. Measures on Stabilizing Housing Price

The General Office of the State Council promulgated the Circular on Duly Stabilizing the Prices of Residential Properties (關於切實穩定住房價格的通知) on March 26, 2005, requiring measures to be taken to restrain housing prices from increasing too fast and to promote the healthy development of the property market. On May 9, 2005, the General Office of the State Council issued the Opinion of the Ministry of Construction and other Departments on Stabilizing the Prices of Residential Properties (關於做好穩定住房價格工作的意見), which provides that:

(i) Intensifying planning and control and improving the housing supply structure

Where there is excessive growth in housing prices and insufficient supply of medium to low priced commodity houses and affordable residential housing, housing construction should mainly involve projects for the development of medium to low priced commodity houses and affordable residential houses. The construction of low-density, high-quality houses shall be strictly controlled. With respect to projects for the construction of medium-or-low-price commodity houses, prior to the assignment of land,

the municipal planning authority shall, according to control planning, set forth conditions for the plan and design of such elements as height of buildings, plot ratio and green space. The property authority shall, in collaboration with other relevant authorities, set forth requirements such as sale price, type and area. Such conditions and requirements will be set up as preconditions to the assignment of land to ensure an adequate supply of small or medium-sized houses at moderate and low prices. The local government must intensify the supervision of planning permits for property development projects. Housing projects that have not been commenced within two years must be re-examined, and those that turn out to be noncompliant will have their planning permits revoked.

(ii) Intensifying control over the supply of land and rigorously enforcing the administration of land

Where there is rapid excessive growth in the price of land for residential use, the proportion of land for residential use to the total land supply should be raised, and the land supply for the construction of regular commodity housing at medium or low prices and affordable residential housing should be increased. Land supply for villa construction shall be continuously suspended, and land supply for high-end housing property construction shall be restricted.

On May 24, 2006, the General Office of the State Council issued the Opinion of the Ministry of Construction and other Departments on Adjusting Housing Supply Structure and Stabilization of Housing Prices (關於調整住房供應結構穩定住房價格的意見). As to the adjustment of housing supply and stabilization of housing prices, the opinion provides that:

a) Adjustment to the housing supply structure

- (i) The construction of medium and small-sized regular commodity houses at medium or low prices should be especially developed to satisfy the demands of local residents.
- (ii) From June 1, 2006, for each and every commodity building newly examined and approved for the commencement of construction, the proportion of the area of housing (including economically affordable housing) with a unit floor area less than 90 square meters must reach 70% of the total development and construction area. In case of adjustment of the above-mentioned proportion, if required in special cases, the municipalities directly under the central government, separately planned cities and provincial capital cities must submit the special request for adjusting proportion to the MOC for approval. The projects that have been examined and approved but have not received a construction works commencement permit shall where necessary adjust the set style of housing according to the above-mentioned requirements.

b) Adjustment to tax, credit and land policies

- (i) Commencing June 1, 2006, business tax applicable to the transfer of a residential property by an individual within five years from the date of purchase will be levied on the basis of the full amount of the sale proceeds. For an individual transferring an ordinary residential property five years or more from the date of purchase, business tax will be exempted. For an individual transferring a house other than an ordinary residential house for five years or more from purchasing, the business tax will be levied on the basis of the balance between the income from selling the house and the purchase price;
- (ii) In order to restrain property development enterprises from purchasing land and buildings with bank credits, any developer applying for loans shall have at least 35% of capital required for the project development. Commercial banks should restrict the grant or extension of revolving credit facilities in any form to property development enterprises with a large amount of idle land and/or vacant commodity buildings. Commodity buildings which are vacant for more than 3 years should not be accepted as a guarantee by the commercial banks;
- (iii) From June 1, 2006, the first installment of individual house loans should be no less than 30%. When a borrower applies for individual house loans for his own use and the floor area of the unit is less than 90 square meters, the first installment remains at 20%;

- (iv) At least 70% of the land supply for residential property developments must be used for low-to-medium-cost and small to medium-size units and low-cost rental properties. On the basis of the restriction of price and housing style, the land supply shall adopt the method of competitive bidding of land price and housing price to determine the property development enterprise. Land supply for villa construction shall continue to be suspended, and land supply for low-density and large-area housing property construction shall be strictly prohibited;
 - (v) When construction has not yet started one year after the construction commencement date agreed in the land use rights assignment contract has elapsed, charges for idle land should be collected at a higher level; when the construction has not started two years after the construction commencement date agreed in the land use rights assignment contract have elapsed, the right to use land can be taken back without compensation. The land will be regarded as idle land if: the development and construction of the land has started on time, but the developed area is less than one third of the total area to be developed and constructed, or the invested amount is less than 25% of the total amount of investment, and the development and construction has been continuously suspended for no less than one year without approval.
- c) Further rectifying and regulating the property market
- (i) Any project with a Construction Land Planning Permit which has not started construction should be re-evaluated. If the project is not in accordance with the controlling requirements of the plan, especially the requirements of the set style structure, the construction works planning permit, the construction works commencement permit and the pre-sale permit should not be issued. Projects which have been altered or the construction of which have exceeded the provisions shall be disposed of or confiscated according to law.
 - (ii) The property administration authority and the administration of industry and commerce should investigate any illegal conduct such as contract fraud. Illegal conduct involving commodity building pre-completion sales without the necessary conditions should be ordered to stop and punished. With respect to the property enterprises that store up housing and maliciously manipulate and raise housing prices, the competent authorities shall enforce monetary punishment according to laws and regulations, and the responsible persons concerned may have their Business Licenses revoked and/or shall be investigated and prosecuted.

To implement the Opinions on Adjusting the Housing Supply Structure and Stabilizing Housing Prices, the MOC promulgated Certain Opinions Regarding the Implementation of the Ratio Requirement for the Structure of Newly Constructed Residential Units (關於落實新建住房結構比例要求的若干意見) on July 6, 2006 and made supplemental requirements on the proportion of newly built housing structure as follows:

- a) From June 1, 2006, in any city (including counties), housing with a floor area of less than 90 square meters should reach 70% of the total floor area of commercial commodity buildings newly approved or constructed.
- b) The governments should guarantee the conditions of planning and design of newly-built commodity buildings conform to the requirements of structure and proportion. Any digression from the above-mentioned requirements without authorization is forbidden and a construction works planning permit should not be issued by municipal planning and authorities. If there is any noncompliance with the planning permit, a construction works commencement permit should not issued by the construction authority and a permit for pre-sale of commodity buildings should not be issued by property development authority.

According to Several Opinions of the General Office of the State Council on Providing Financial Support for Economic Development (No.126 [2008]) (國務院辦公廳關於當前金融促進經濟發展的若干意見), issued by General Office of the State Council on December 8, 2008, the State Council (i) implemented and promulgated relevant credit policies and measures to support people's purchase of their first ordinary home or improved ordinary home; (ii) provided more credit support for the construction of low rent houses and affordable residential houses and the reconstruction of shed areas for low-income urban residents; and (iii) initiated the pilot operation of real estate trust investment funds to diversify the financing channels of real estate enterprises.

In January 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of the 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 reasonable guidance for the purchase of property, restrain speculative investment in property, and strengthen risk prevention and market supervision. Additionally, the Circular explicitly requires a family (including a borrower, his or her spouse and children under 18) who have already entered into a mortgage for the purchase of a house to pay a minimum down payment of 40% of the purchase price of a second or any additional house which they apply to purchase.

II. LEGAL SUPERVISION RELATING TO THE PROPERTY MANAGEMENT SECTOR IN THE PRC

A. Foreign-invested Property Management Enterprises

According to the Foreign Investment Industrial Guidance Catalogue, property management falls within the category of industries in which foreign investment is permitted. Foreign invested property management enterprises can be set up as a Sino-foreign equity joint venture, Sino-foreign cooperative joint venture or wholly foreign owned enterprise according to the Catalogue and the relevant requirements of the laws and administrative regulations regarding foreign-invested enterprises. Foreign invested property management enterprises should obtain approval from the commercial authority and obtain an Approval Certification for a foreign-invested enterprise before registering with the Administration for Industry and Commerce.

B. The Qualification of a Property Management Enterprise

According to the Regulation on Property Management (物業管理條例) enacted by the State Council on June 8, 2003, implemented on September 1, 2003 and amended on August 26, 2007, a qualification system for enterprises engaging in property management activities is adopted. According to the Measures for the Administration on Qualifications of Property Management Enterprises (物業管理企業資質管理辦法) enacted by the MOC on March 17, 2004, implemented on May 1, 2004 and amended on November 26, 2007, a newly established property management enterprise shall, within 30 days from the date of receiving its Business License, apply for qualifications to the competent property departments of the people's governments of the municipalities directly under the central government and cities divided into districts in the locality of industry and commerce registration. The departments of qualification examination and approval shall check and issue property management qualification certificates to enterprises meeting conditions for the corresponding qualification class.

According to the Measures for the Administration on Qualifications of Property Management Enterprises, the qualifications of a property management enterprise shall be classified into first, second and third classes. The competent construction department of the State Council shall be responsible for the issuance and administration of the qualification certificate of the first class property management enterprises. The competent construction departments of the people's governments of provinces and autonomous regions shall be responsible for issuance and administration of the qualification certificate of the second class property management enterprises, and the competent property administration departments of the people's governments of municipalities directly under the central government shall be responsible for issuance and administration of the qualification certificate of the second and third class property management enterprises. The competent realty departments of the people's governments of the

cities divided into districts shall be responsible for the issuance and administration of the qualification certificate of the third class property management enterprises.

The property management enterprises with the first class qualification may undertake any realty management projects. The property management enterprises with the second class qualification may undertake the realty management business of residential projects of under 300,000 square meters and the non-residential projects of under 80,000 square meters. The property management enterprises with the third class qualification may undertake the realty management business of residential projects under 200,000 square meters and non-residential projects under 50,000 square meters. An annual inspection system on the qualifications of property management enterprises is adopted.

C. Appointment of a Property Management Enterprise

According to the Regulation on Property Management, the general meeting of owners in a property can appoint and dismiss the property management enterprise with affirmative votes of owners holding more than 2/3 of the voting rights. Before the formal appointment of a property management enterprise by the general meeting of the owners, a written temporary service contract should be signed by the construction institutions (for example, a property development enterprise) and a property management enterprise.

III. LEGAL SUPERVISION RELATING TO REAL ESTATE INTERMEDIARY SERVICES IN THE PRC

A. Foreign Investment in the Real Estate Intermediate Services Sector

Under the Foreign Investment Industry Guidance Catalogue amended jointly by MOFCOM and the NDRC in October 2007 and with effect from December 1, 2007, transactions in the real estate secondary market and the real estate intermediary or broker companies falls within the category of industries in which foreign investment is subject to restrictions.

The Regulations on Guiding the Orientation of Foreign Investment (指導外商投資方向規定) promulgated by the State Council on February 21, 2002 and effective from April 1, 2002, stipulate that projects with foreign investment that are classified as restricted projects shall be subject to the examination and approval of the corresponding competent departments of the people's governments of the provinces, autonomous regions, municipalities directly under the Central Government and municipalities. At the time of examination and approval, the project must also be reported to the competent departments and administrative authorities at the next highest level. The power to conduct examination and approval for this kind of project may not be granted to any lower level authority.

B. Qualifications for the Real Estate Intermediary Services Sector

The Provisions on the Administration of Urban Real Estate Intermediary Services (城市房地產中介服務管理規定) promulgated by the MOC on January 8, 1996 and amended on August 15, 2001 define real estate intermediary services as including consulting, price evaluation and brokerage services that relate to real estate. A person wishing to provide real estate intermediary services must attain appropriate qualifications.

The conduct of real estate intermediary services should only be carried out by an organization that meets the following criteria: a) it must have its own name and organizational structure; b) it must have a fixed place of business; c) it must have a stipulated amount of assets and funds; and d) (i) in the case that it provides real estate consultancy services, a minimum of fifty percent of its personnel must have intermediate level or above specialist qualifications relevant to the real estate sector, or elementary level specialist qualifications in the area of technology; (ii) in the case that it provides real estate evaluation services, it must have a stipulated amount of qualified evaluation personnel; and (iii) in the case that it provides real estate brokerage services, it must have a stipulated amount of qualified brokers.

Organizations that provide real estate intermediary services in more than one province, autonomous regions and municipalities directly under the Central Government should register with the relevant administrative departments in charge of construction of the people's government of the province and the autonomous regions, or the administrative departments in charge of real estate administration of the people's government of the municipalities directly under the Central Government where the operations are to be carried out. Application for the establishment of the enterprise must be made with the local branch of the SAIC. Within one month of receiving a Business License, the enterprise must register with the real estate administration department of the same local government at the county level or above.

MANAGEMENT

Our board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of the members of our board:

Name	Age	Position
PAN Jun (潘軍)	39	Chairman, executive director and chief executive officer
ZENG Jie (曾寶寶)	39	Executive director
FENG Hui Ming (馮輝明)	39	Executive director
CHAN Sze Hon (陳思翰), ACCA, CPA	36	Executive director, chief financial officer and company secretary
HO Man (何敏)	39	Independent non-executive director
LIAO Martin Cheung Kong, JP (廖長江)	52	Independent non-executive director
HUANG Ming (黃明)	46	Independent non-executive director
XU Quan (許權)	67	Independent non-executive director

Directors

Executive Directors

Mr. PAN Jun (潘軍), aged 39, is the chairman of our board, an executive director, the chief executive officer, and a member of each of our Company's remuneration committee and nomination committee, respectively. He joined our Group in 1999 and is responsible for the overall operation of our Group's projects, the formulation of our development strategies, as well as supervising the project planning, business and operation management of our Group. He is also currently the president of Fantasia Group (China) Co., Ltd., the chairman of Xingyan Property Consultancy, the general manager of Shenzhen Xingyan Investment Development Co., Ltd. and the director of a number of the Group's subsidiaries. Mr. Pan has over 14 years of experience in the real estate development industry in China and prior to joining our Group, Mr. Pan was the project manager, the manager of the marketing department, the manager of the valuation department and the assistant to the general manager of World Union Real Estate Consultancy (Shenzhen) Ltd. (世聯地產顧問(深圳)有限公司). Mr. Pan obtained a Bachelor's degree in conservancy and hydropower engineering from Chengdu University of Science and Technology (成都科技大學) in 1992 and holds an EMBA degree from Tsinghua University. Mr. Pan is also a registered property valuer in China and a member of the Shenzhen Institution of Real Estate Appraisers (深圳市不動產估價學會). Mr. Pan was appointed as a director on October 17, 2007.

Ms. ZENG Jie (曾寶寶), aged 39, is an executive director of our Company. She is also the Chairlady of our Company's nomination committee. She has been involved in the property industry since 1995. After her 14 years of experience in senior management, entrepreneurship and management, she was recognized as one of "the leading figures of artistic property" (藝術地產掌門人) in 2001. From 1994 to 1996, Ms. Zeng was the general manager of Shenzhen Kingkey Property Development Company Limited (深圳京基房地產開發有限公司) and was responsible for the overall operations of property projects and the management of the company. In 1996, Ms. Zeng established Fantasia Group (China) Co., Ltd., and gradually became involved in property development, property management and agency services businesses. Since 2006, Ms. Zeng has been the chairlady of Fantasia Group (China) Co., Ltd. and Shenzhen Xingyan Investment Development Co., Ltd. ("Shenzhen Fantasia Investment"). She is also the director of a number of the Group's subsidiaries. She is one of the controlling shareholders and the largest Shareholder of the Company. Ms. Zeng is currently studying for an EMBA degree with Cheung Kong Graduate School of Management (長江商學院). Ms. Zeng was appointed as a director on October 17, 2007.

Mr. FENG Hui Ming (馮輝明), aged 39, is an executive director of our Company. He is also the vice president of Fantasia Group (China) Co., Ltd. and the director of a number of the Group's subsidiaries. Mr. Feng joined our Group in 2005 as a deputy general manager of Shenzhen Fantasia Investment and is primarily responsible for the investment management of our Group. Prior to joining our Group, he was the manager of the investment department and later the chief financial officer of Jia Zhao Ye Properties (Shenzhen) Co., Ltd. (佳兆業地產(深圳)有限公司) from 2003 to 2004 and the general manager of Suzhou Fuyin Investment Development Co., Ltd. (蘇州市富銀投資發展有限公司) from 2004 to 2005. Mr. Feng received a Bachelor's degree in forestry economics and management from Northeast Forestry University (東北林業大學) in 1993 and a Master's degree in economics from Zhongnan University of Economics and Law (中南財經大學) in 1996. Mr. Feng was appointed as a director on November 4, 2008.

Mr. CHAN Sze Hon (陳思翰), ACCA, CPA, aged 36, is an executive director and the chief financial officer of our Group. Mr. Chan joined our Group in March 2008 and is responsible for supervising the financial reporting, corporate finance, treasury, tax and other finance related matters of our Group. Mr. Chan is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Chan holds a Bachelor of Arts Degree in Accountancy from City University of Hong Kong and a Master Degree in Corporate Finance from the Hong Kong Polytechnic University. He has over 14 years of experience in accounting and financial management and had worked for an international accounting firm in Hong Kong for over 8 years. He is currently a non-executive director of Greater China Holdings Limited (中華實業控股有限公司) ("Greater China"), a company listed on the Main Board of the Stock Exchange. During the period from July 18, 2005 to October 12, 2008, Mr. Chan was an executive director of Greater China. Mr. Chan is also an independent non-executive director of China Mining Resources Group Limited (中國礦業資源集團有限公司), a company listed on the Main Board of the Stock Exchange, and an independent non-executive director of each of China AU Group Holdings Limited (中國金豐集團控股有限公司) and ERA Holdings Global Limited (年代國際控股有限公司) respectively, both of which are listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chan was appointed as a director on November 4, 2008.

Independent Non-executive Directors

Mr. HO Man (何敏), aged 40, is an independent non-executive director. He is also the chairman of our Company's audit committee and a member of each of our Company's remuneration committee and nomination committee, respectively. Mr. Ho holds an EMBA degree from Tsinghua University, a Master of Science degree in Finance from the London Business School and is a Chartered Financial Analyst and Certified Public Accountant. Mr. Ho has over 13 years of experience in private equity and financial industry. He joined Chepstow Capital Advisers Limited, a HK based mid-market private equity house, as Managing Director in January 2010 and is responsible for deal sourcing, evaluation and structuring, negotiation, post investment monitoring and realization, with particular emphasis on Hong Kong and the PRC. Prior to this, Mr. Ho joined CLSA Capital Partners (HK) Limited ("CLSA") in August 1997 and until October 2009 was the Managing Director, Head of China Growth and Expansion Capital of CLSA. Mr. Ho was a non-executive director and a member of the audit committee of SCUD Group Limited (飛毛腿集團有限公司), a company listed on the Main Board of the Stock Exchange, and a non-executive director and an audit committee member of Shanghai Tonva Petrochemical Co., Ltd. (上海棟華石油化工股份有限公司), a company listed on the Growth Enterprise Market of the Stock Exchange, until October 2009. Mr. Ho was appointed as an independent non-executive director on October 12, 2009.

Mr. LIAO Martin Cheung Kong, JP (廖長江), aged 52, is an independent non-executive director. He is also a member of each of our Company's audit committee, remuneration committee and nomination committee, respectively. Mr. Liao was appointed a Justice of the Peace in 2004. He is also a Deputy (representing Hong Kong) to the 11th National People's Congress of the People's Republic of China and a Member of the 11th Shanghai Municipal Committee of the Chinese People's Political Consultative Conference. In Hong Kong, Mr. Liao serves as Vice Chairman of the Hong Kong Council for Accreditation of Academic and Vocational Qualifications. Mr. Liao chairs the Appeal Board (Amusement Game Centres) and serves as a Council member of the University of Hong Kong and a member of the board of directors of the Hong Kong Sports Institute Limited. He also sits on a number of other statutory and advisory bodies set up by the Hong Kong SAR Government and is active in community service. Mr. Liao graduated with a Bachelor of Economic Science (Hons) degree and a Master of Laws degree from University College London. Mr. Liao was Called to the Bar in England and Wales in 1984 and was Called to the Bar in Hong Kong in 1985 and has been a practising barrister in Hong Kong since 1985. Mr. Liao is also an advocate and solicitor admitted to the Supreme Court of Singapore since 1992. Mr. Liao was appointed as an independent non-executive director on October 12, 2009.

Mr. HUANG Ming (黃明), aged 46, is an independent non-executive director. He is also the chairman of the Company's remuneration committee and a member of each of our Company's audit committee and nomination committee, respectively. He has been a Professor of Finance at the Johnson Graduate School of Management at Cornell University since July 2005 and the Head of School of Finance of Shanghai University of Finance & Economics from 2006 to April 2009. Mr. Huang was an Assistant Professor of Finance at Stanford University, Graduate School of Business from 1998 to 2002. Mr. Huang was also the Associate Dean and visiting Professor of Finance and the Professor of Finance at the Cheung Kong Graduate School of Business (長江商學院) from 2004 to 2005 and since 2008 respectively. Mr. Huang graduated from Peking University in 1985 majoring in Physics. Mr. Huang then obtained a Ph.D in Physics and a Ph.D in Business from Cornell University and Stanford University respectively. Mr. Huang is a non-executive director of the Annuity Fund Management Board of China National Petroleum Corporation (中國石油天然氣集團年金理事會) and Aegon-Industrial Fund Management Co., Ltd. (興業全球人壽基金管理有限公司) since 2007 and 2008 respectively. Mr. Huang is currently on the editorial board of the American Economics Review (美國經濟評論). Mr. Huang was appointed as an independent non-executive director on October 12, 2009.

Mr. XU Quan (許權), aged 67, is an independent non-executive director. He is also a member of each of our Company's audit committee, remuneration committee and nomination committee, respectively. Mr. Xu is a qualified real estate senior engineer and real estate valuer. Mr. Xu had later obtained a Postgraduate Programme Diploma in Shenzhen Real Property at Jinan University (暨南大學) in 1992. In 1993, Mr. Xu qualified as a real estate senior engineer (房地產高級工程師) and later in 1995, obtained his qualification as an individual member (個人會員) in the Guangdong Real Property Valuer Association (廣東省房地產估價師學會). Since 2003, Mr. Xu has been the Chairman of Shenzhen Real Estate Association (深圳市房地產業協會). Mr. Xu was appointed as an independent non-executive director on October 12, 2009.

Senior Management

Mr. WANG Liang (王亮) aged 40, is the chief financial officer of Fantasia Group (China) Co., Ltd. Mr. Wang joined our Group in 2006 and is primarily responsible for financial reporting, corporate financial administration, tax and other financial related affairs of the Group, except for Hong Kong subsidiaries. Prior to joining our Group, he was the director of the financial management department of Huafu HK Co. Limited (香港華孚集團) and the general manager of the financial management department of one of its subsidiaries from 2005 to 2006, the assistant to general manager of the financial management department of Shenzhen Feishang Industry Group Co., Ltd. (深圳市飛尚實業發展(集團)有限公司) in 2005 and the deputy manager of the finance department of Shenzhen Southern Zhongji Containers Manufacture Co. Ltd. (深圳南方中華集裝箱製造有限公司) from 1994 to 2001. Mr. Wang received a Bachelor's degree in business economics (商業經濟學) from Yangzhou Normal University (揚州師範學院) in 1992.

Mr. TANG Xue Bin (唐學斌), aged 41, is the general manager of Shenzhen Fantasia Management. Mr. Tang joined our Group in 2002 and is responsible for the operation of Shenzhen Fantasia Management. Prior to joining our Group, he was the deputy general manager of China Overseas Property Management Ltd. (中海物業管理有限公司) from 1997 to 2001. Mr. Tang obtained a Bachelor's degree in industrial electrical automation (工業電氣自動化) from Tongji University (同濟大學) in 1993. Mr. Tang is currently studying for an EMBA degree in China Europe International Business School (中歐國際工商學院).

Ms. LU Ying (路瑩), aged 54, is the general manager of Xingyan Property Consultancy. Ms. Lu joined our Group in 2002 and is responsible for the operation of Xingyan Property Consultancy. Prior to joining our Group, she was the operation director of Shenzhen Centaline Property Consultancy Limited (深圳中原物業顧問有限公司) from 1997 to 2002. Ms. Lu received a Bachelor's degree in computer science from Jilin University (吉林大學) in 1980. Ms. Lu is currently studying for an EMBA degree with China Europe International Business School (中歐國際工商學院).

Mr. LIU Zongbao (劉宗保), aged 41, is the general manager of Chengdu Tonghe Real Estate Co., Ltd. Mr. Liu joined our Group in 2005 and is responsible for the operation of Chengdu Tonghe Real Estate Co., Ltd. Prior to joining our Group, he was the deputy general manager of Shenzhen Zhonglian Real Estate Development Co., Ltd. (深圳市中聯房地產企業發展有限公司) from 2004 to 2005 and the manager of the marketing and sales department of Shenzhen Xinghe Real Estate Development Co., Ltd. (深圳市星河房地產開發公司) from 2001 to 2003. Mr. Liu received his Bachelor's degree in construction management engineering from Southeast University (東南大學) in 1991.

Mr. JIN Jianglin (金江林), aged 45, is the general manager of Dongguan Fantasia Real Estate Investment Co., Ltd. Mr. Jin joined our Group in 2001 and is currently responsible for the operation of Dongguan Fantasia Real Estate Investment Co., Ltd. From 2001 to 2006, he was the manager of the engineering division, manager of the business division and an assistant to the general manager of Shenzhen Xingyan Investment Development Co., Ltd. Prior to joining our Group, he was a chief supervisor of Shenzhen Huaxi Construction Supervision Co., Ltd. (深圳市華西建設監理有限公司) from 1993 to 2001. Mr. Jin received his Bachelor's degree in conservancy and hydropower engineering from Jiangxi Industrial University (江西工業大學) in 1987.

Ms. SONG Xiangmei (宋湘梅), aged 39, is the general manager of Fantasia Chengdu Ecological Tourism Development Co., Ltd.. She is also currently the operation director of Shenzhen Xingyan Investment Development Co., Ltd. and the deputy general manager of Fantasia (Chengdu) Development Co., Ltd. Ms. Song joined our Group in 2001 and is primarily responsible for the operation of Fantasia Chengdu Ecological Tourism Development Co., Ltd. Prior to joining our Group, she was the director of sales department and the manager of development department of Chengdu Sinda Enterprises Ltd. (成都信德實業有限公司) from 1996 to 2001 and a designer of Chengdu Seamless Steel Pipe Factory (currently known as Chengdu Pancheng Steel Metallurgical Engineering Technology Co., Ltd.) (成都無縫鋼管廠設備設計研究所) (currently known as 成都攀成鋼冶金工程技術有限公司) from 1992 to 1996. Ms. Song obtained her Bachelor's degree in civil engineering from Chengdu University of Technology and Science (成都科技大學) in 1992. Ms. Song is currently studying for an EMBA degree with Tsinghua University.

Mr. FENG Zhe (馮哲) aged 39, joined our Group in 2008 as the vice president of Fantasia Group (China) Co., Ltd. and the deputy executive general manager of Shenzhen Xingyan Investment Development Co., Ltd. and was redesignated as the general manager of Tianjin Songjiang-Fantasia Real Estate Co., Ltd in March 2009. Prior to joining our Group, he was a partner of Adfaith Management Consulting Inc. (北京正略鈞策管理諮詢有限公司) from 2002 to 2007, a vice president of Beijing Landsky Engineering Co., Ltd. (北京良業照明工程有限公司) from 2001 to 2002, and an engineer of China Architecture Design & Research Group (中國建築設計研究院) from 1993 to 2001. Mr. Feng received a Bachelor's degree in industrial electrical automation from Tongji University (同濟大學) in 1993 and an MBA degree from the School of Business of Renmin University of China (中國人民大學商學院) in 2002.

Mr. CHEN Geng (陳耕), aged 39, is the operational manager of Shenzhen Xingyan Investment Development Co., Ltd. Mr. Chen joined our Group in 2001 and is currently responsible for the operation of Shenzhen Xingyan Investment Development Co., Ltd. From 2001 to 2008, he was the manager of business division, assistant to the general manager and deputy general manager of Chengdu Tonghe Real Estate Co., Ltd., and from 2008 to 2009 the manager of construction management division of Shenzhen Xingyan Investment Development Co., Ltd. Prior to joining our Group, he was an engineer of Sichuan Water Conservation and Hydropower Survey and Design Institute (四川省水利水電勘測設計研究院) from 1992 to 2001. Mr. Chen obtained his Bachelor's degree in conservancy and hydropower engineering from Chengdu University of Science and Technology (成都科技大學) in 1992.

Qualified Accountant and Company Secretary

Mr. CHAN Sze Hon (陳思翰), ACCA, CPA, aged 36, joined our Group as the chief financial officer in March 2008 and as the Qualified Accountant and the Company Secretary of our Group on a full time basis. For details regarding Mr. Chan's experience, see the paragraph entitled "Directors" above in this section.

Board Committees

Audit Committee

Our Company established an audit committee on October 12, 2009 with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control systems of our Company.

The audit committee comprises four members, namely, Mr. HO Man (何敏), Mr. LIAO Martin Cheung Kong, JP (廖長江), Mr. HUANG Ming (黃明) and Mr. XU Quan (許權). They are all independent non-executive directors. The audit committee is chaired by Mr. HO Man (何敏).

Remuneration Committee

Our Company established a remuneration committee on October 12, 2009 with written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are to evaluate and make recommendations to our Board regarding the compensation of the chief executive officer and other executive directors. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of our senior management.

The remuneration committee comprises five members, namely, Mr. HUANG Ming (黃明), Mr. HO Man (何敏), Mr. LIAO Martin Cheung Kong, JP (廖長江), Mr. XU Quan (許權) and Mr. PAN Jun (潘軍). The remuneration committee is chaired by Mr. HUANG Ming (黃明).

Nomination Committee

Our Company established a nomination committee on October 12, 2009 with written terms of reference in compliance with the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board.

The nomination committee comprises six members, namely, Ms. ZENG Jie (曾寶寶), Mr. HO Man (何敏), Mr. LIAO Martin Cheung Kong, JP (廖長江), Mr. HUANG Ming (黃明), Mr. XU Quan (許權) and Mr. PAN Jun (潘軍). The nomination committee is chaired by Ms. ZENG Jie (曾寶寶).

Compensation of Directors and Senior Management

The Group's remuneration policies are formulated based on qualifications, years of experiences and the performance of individual employees and are reviewed regularly. The same policies will be adopted after Listing Date.

The aggregate amount of compensation (including any salaries, fees, discretionary bonuses and other allowances and benefits in kind) paid by us during the years ended December 31, 2007, 2008 and 2009, to those persons who have been or are our directors, was approximately RMB3,206,000, RMB4,675,000 and RMB5,380,000, respectively.

The five highest paid individuals of the Group for the year ended December 31, 2007 included two directors while for the year ended December 31, 2008 and 2009 included three directors. The aggregate amount of fees, salaries, discretionary bonuses and contributions to retirement benefit plans of the remaining three individuals for the year ended December 31, 2007, the remaining two individuals for the years ended December 31, 2008 and 2009 was approximately, RMB2,298,000, RMB2,236,000 and RMB2,538,000, respectively.

Except as disclosed above, no other payments have been paid or are payable, in respect of the three years ended December 31, 2007, 2008 and 2009 by us or any of our subsidiaries to our directors or the five highest paid individuals of our Group.

PRINCIPAL SHAREHOLDERS

As of December 31, 2009, so far as the directors are aware, the following persons or institutions have beneficial interests or short positions in any shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, Cap 571 of the Laws of Hong Kong, or who is directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholder	Nature of Interest	Number of shares	Approximate percentage of interest in our Company as at December 31, 2009
Fantasy Pearl	Beneficial interest ⁽¹⁾	3,174,795,000	65.14%
	Short Position	470,205,000	9.65%
Ice Apex	Interest of controlled corporation ⁽²⁾	3,174,795,000	65.14%
	Short Position	470,205,000	9.65%
Ms. Zeng Jie	Interest of controlled corporation	3,174,795,000	65.14%
	Short Position	470,205,000	9.65%
Fantasia (Cayman) Ltd (“Fantasia (Cayman)”)	Beneficial interest ⁽³⁾	170,403,750	3.50%
	Security Interest ⁽³⁾	470,205,000	9.68%
Goldman Sachs RE Investments Holdings Limited	Interest of controlled corporation ⁽⁴⁾	640,608,750	13.18%
The Goldman Sachs Group, Inc (“Goldman Sachs”)	Interest of controlled corporation	639,311,438	13.12%
Fantasia Holding (Cayman) Ltd	Interest of controlled corporation ⁽⁵⁾	640,608,750	13.18%
Goldman Sachs Developing Markets Real Estate Partners (US) Coopertief U.A.	Interest of controlled corporation ⁽⁶⁾	640,608,750	13.18%
Goldman Sachs Developing Markets Real Estate Coopertief U.A.	Interest of controlled corporation ⁽⁷⁾	640,608,750	13.18%
Goldman Sachs Developing Markets Real Estate Company	Interest of controlled corporation ⁽⁸⁾	640,608,750	13.18%
Goldman Sachs Developing Markets Real Estate Company Voteco, LLC	Interest of controlled corporation ⁽⁹⁾	640,608,750	13.18%
Goldman Sachs Developing Markets Real Estate Partners (US), L.P.	Interest of controlled corporation ⁽¹⁰⁾	640,608,750	13.18%
Goldman Sachs Developing Markets Real Estate Partners (US) GP, LLC	Interest of controlled corporation ⁽¹¹⁾	640,608,750	13.18%
Goldman, Sachs & Co	Interest of controlled corporation ⁽¹²⁾	640,608,750	13.18%
Wellluck Properties Ltd (“Wellluck”)	Beneficial Interest ⁽¹³⁾	56,801,250	1.16%
	Security Interest ⁽¹³⁾	470,205,000	9.68%
Rich Fame Investments Ltd	Interest of controlled corporation ⁽¹⁴⁾	527,006,250	10.84%
HSBC NF China Real Estate Fund L.P.	Interest of controlled corporation ⁽¹⁵⁾	527,006,250	10.84%
HSBC NF China Investors Limited	Interest of controlled corporation ⁽¹⁶⁾	527,006,250	10.84%

Name of shareholder	Nature of Interest	Number of shares	Approximate percentage of interest in our Company as at December 31, 2009
HSBC NF China Holdings Limited . . .	Interest of controlled corporation ⁽¹⁷⁾	527,006,250	10.84%
HSIL Investments Limited	Interest of controlled corporation ⁽¹⁸⁾	527,006,250	10.84%
HSBC Property Funds (Holdings) Limited	Interest of controlled corporation ⁽¹⁹⁾	527,006,250	10.84%
HSBC Specialist Investments Limited .	Interest of controlled corporation ⁽²⁰⁾	527,006,250	10.84%
HSBC Global Asset Management Limited	Interest of controlled corporation ⁽²¹⁾	527,006,250	10.84%
HSBC Investment Bank Holdings plc .	Interest of controlled corporation ⁽²²⁾	527,006,250	10.84%
HSBC Holdings plc	Interest of controlled corporation	527,006,250	10.84%
Nan Fung Consolidated Investments Ltd	Interest of controlled corporation ⁽²³⁾	527,006,250	10.84%
Nan Fung China Development Holdings Limited	Interest of controlled corporation ⁽²⁴⁾	527,006,250	10.84%
Nan Fung Enterprises Limited	Interest of controlled corporation ⁽²⁵⁾	527,006,250	10.84%
Crosby Investment Holdings Inc	Interest of controlled corporation ⁽²⁶⁾	527,006,250	10.84%
CHEN Wai Wai Vivien	Interest of controlled corporation	527,006,250	10.84%
Golden Success Profits Limited	Interest of controlled corporation ⁽²⁷⁾	527,006,250	10.84%
Sheng Fung Company Limited	Interest of controlled corporation ⁽²⁸⁾	527,006,250	10.84%
CHEN Din Hwa	Interest of controlled corporation	527,006,250	10.84%
CHEN Yang Foo Oi	Family interest ⁽²⁹⁾	527,006,250	10.84%

Notes:

- (1) *Fantasy Pearl is owned as to 80% by Ice Apex and 20% by Graceful Star. Ice Apex is deemed to be interested in the shares held by and short position of Fantasy Pearl for the purpose of Part XV of the SFO. Graceful Star is entitled to a pre-emptive right over shares in the capital of Fantasy Pearl pursuant to an agreement made between, among others, Ms. Zeng Jie, Mr. Pan Jun, Ice Apex and Graceful Star.*
- (2) *Ice Apex is wholly owned by Ms. Zeng Jie. Ms. Zeng Jie is deemed to be interested in the shares held by Ice Apex for the purpose of Part XV of the SFO.*
- (3) *Fantasia (Cayman) is owned as to 46.67% by Fantasia Holding (Cayman) Ltd and as to 53.33% by Goldman Sachs RE Investments Holdings Limited. Fantasia Holding (Cayman) Ltd and Goldman Sachs RE Investments Holdings Limited are each deemed to be interested in the shares in which Fantasia (Cayman) is interested for the purpose of Part XV of the SFO.*
- (4) *Goldman Sachs RE Investments Holdings Limited is a wholly owned subsidiary of Goldman Sachs. Goldman Sachs is deemed to be interested in the shares in which Goldman Sachs RE Investments Holdings Limited is interested for the purpose of Part XV of the SFO.*
- (5) *Fantasia Holding (Cayman) Ltd is owned as to 36.0508% by Goldman Sachs Developing Markets Real Estate Partners (US) Coopertief U.A. and as to 57.8879% by Goldman Sachs Developing Markets Real Estate Coopertief U.A. Goldman Sachs Developing Markets Real Estate Partners (US) Coopertief U.A. and Goldman Sachs Developing Markets Real Estate Coopertief U.A. are each deemed to be interested in the shares in which Fantasia Holding (Cayman) Ltd is interested for the purpose of Part XV of the SFO.*

- (6) *Goldman Sachs Developing Markets Real Estate Partners (US) Coopertief U.A. is owned as to more than one-third by Goldman Sachs Developing Markets Real Estate Partners (US), L.P. and as more than one-third by Goldman Sachs. Each of Goldman Sachs Developing Markets Real Estate Partners (US), L.P. and Goldman Sachs is deemed to be interested in the shares in which Goldman Sachs Developing Markets Real Estate Partners (US) Coopertief U.A. is interested for the purpose of Part XV of the SFO.*
- (7) *Goldman Sachs Developing Markets Real Estate Coopertief U.A. is owned as to more than one-third by Goldman Sachs Developing Markets Real Estate Company and as to more than one-third by Goldman Sachs. Each of Goldman Sachs Developing Markets Real Estate Company and Goldman Sachs is deemed to be interested in the shares in which Goldman Sachs Developing Markets Real Estate Coopertief U.A. is interested for the purpose of Part XV of the SFO.*
- (8) *All of the voting shares of Goldman Sachs Developing Markets Real Estate Company are owned by Goldman Sachs Developing Markets Real Estate Company Voteco, LLC. Goldman, Sachs & Co, a wholly-owned subsidiary of Goldman Sachs held by Goldman Sachs directly and indirectly through intermediate subsidiaries, is the investment manager to Goldman Sachs Developing Markets Real Estate Company. Each of Goldman Sachs Developing Markets Real Estate Company Voteco, LLC and Goldman, Sachs & Co is deemed to be interested in the shares in which Goldman Sachs Developing Markets Real Estate Company is interested for the purpose of Part XV of the SFO.*
- (9) *Goldman Sachs Developing Markets Real Estate Company Voteco, LLC is wholly owned by Goldman Sachs. Goldman Sachs is deemed to be interested in the shares in which Goldman Sachs Developing Markets Real Estate Company Voteco, LLC is interested for the purpose of Part XV of the SFO.*
- (10) *The general partner of Goldman Sachs Developing Markets Real Estate Partners (US), L.P. is Goldman Sachs Developing Markets Real Estate Partners (US) GP, LLC. Goldman, Sachs & Co., a wholly-owned subsidiary of Goldman Sachs, held by Goldman Sachs directly and indirectly through intermediate subsidiaries, is the investment manager to Goldman Sachs Developing Markets Real Estate Partners (US), L.P. Each of Goldman Sachs Developing Markets Real Estate Partners (US) GP, LLC. and Goldman, Sachs & Co. is deemed to be interested in the shares in which Goldman Sachs Developing Markets Real Estate Partners (US), L.P. is interested for the purpose of Part XV of the SFO.*
- (11) *Goldman Sachs Developing Markets Real Estate Partners (US) GP, LLC is wholly owned by Goldman Sachs. Goldman Sachs is deemed to be interested in the shares in which Goldman Sachs Developing Markets Real Estate Partners (US) GP, LLC is interested for the purpose of Part XV of the SFO.*
- (12) *Goldman, Sachs & Co., is a wholly-owned subsidiary of Goldman Sachs, held by Goldman Sachs directly and indirectly through intermediate subsidiaries. Goldman Sachs is deemed to be interested in the shares in which Goldman, Sachs & Co., is interested for the purpose of Part XV of the SFO.*
- (13) *Wellluck is wholly owned by Rich Fame Investment Ltd. Rich Fame Investment Ltd is deemed to be interested in the shares in which Wellluck is interested for the purpose of Part XV of the SFO.*
- (14) *Rich Fame Investment Ltd is owned as to 80% by HSBC NF China Real Estate Fund LP. HSBC NF China Real Estate Fund LP is deemed to be interested in the shares in which Rich Fame Investment Ltd is interested for the purpose of Part XV of the SFO.*
- (15) *The general partner of HSBC NF China Real Estate Fund LP is HSBC NF China Investors Ltd. HSBC NF China Investors Ltd is deemed to be interested in the shares in which HSBC NF China Real Estate Fund LP is interested for the purpose of Part XV of the SFO.*
- (16) *HSBC NF China Investors Ltd is wholly owned by HSBC NF China Holdings Ltd. HSBC NF China Holdings Ltd is deemed to be interested in the shares in which HSBC NF China Investors Ltd is interested for the purpose of Part XV of the SFO.*
- (17) *HSBC NF China Holdings Ltd is owned as to 50% by HSIL Investments Ltd and as to 50% by Nan Fung Consolidated Investments Ltd. Each of HSIL Investments Ltd and Nan Fung Consolidated Investments Ltd is deemed to be interested in the shares in which HSBC NF China Holdings Ltd is interested for the purpose of Part XV of the SFO.*
- (18) *HSIL Investments Ltd is wholly owned by HSBC Property Funds (Holding) Ltd. HSBC Property Funds (Holdings) Ltd is deemed to be interested in the shares in which HSIL Investments Ltd is interested for the purpose of Part XV of the SFO.*
- (19) *HSBC Property Funds (Holdings) Ltd is wholly owned by HSBC Specialist Investments Ltd. HSBC Specialist Investments Ltd is deemed to be interested in the shares in which HSBC Property Funds (Holdings) Ltd is interested for the purpose of Part XV of the SFO.*
- (20) *HSBC Specialist Investments Ltd is wholly owned by HSBC Global Asset Management Ltd. HSBC Global Asset Management Ltd is deemed to be interested in the shares in which HSBC Specialist Investments Ltd is interested for the purpose of Part XV of the SFO.*
- (21) *HSBC Global Asset Management Ltd is wholly owned by HSBC Investment Bank Holdings plc. HSBC Investment Bank Holdings plc is deemed to be interested in the shares in which HSBC Global Asset Management Ltd is interested for the purpose of Part XV of the SFO.*
- (22) *HSBC Investment Bank Holdings plc is wholly owned by HSBC Holdings plc. HSBC Holdings plc is deemed to be interested in the shares in which HSBC Investment Bank Holdings plc is interested for the purpose of Part XV of the SFO.*

- (23) *Nan Fung Consolidated Investments Ltd is owned by 50% by Nan Fung China Development Holdings Ltd and as to 50% by Golden Success Profits Ltd. Each of Nan Fung China Development Holdings Ltd and Golden Success Profits Ltd is deemed to be interested in the shares in which Nan Fung Consolidated Investments Ltd is interested for the purpose of Part XV of the SFO.*
- (24) *Nan Fung China Development Holdings Ltd is wholly owned by Nan Fung Enterprises Ltd. Nan Fung Enterprises Ltd is deemed to be interested in the shares in which Nan Fung China Development Holdings Ltd is interested for the purpose of Part XV of the SFO.*
- (25) *Nan Fung Enterprises Ltd is wholly owned by Crosby Investment Holdings Inc. Crosby Investment Holdings Inc is deemed to be interested in the shares in which Nan Fung Enterprises Ltd is interested for the purpose of Part XV of the SFO.*
- (26) *Crosby Investment Holdings Inc is wholly owned by CHEN Wai Wai Vivien. CHEN Wai Wai Vivien is deemed to be interested in the shares in which Crosby Investment Holdings Inc is interested for the purpose of Part XV of the SFO.*
- (27) *Golden Success Profits Ltd is wholly owned by Sheng Fung Co. Ltd. Sheng Fung Co. Ltd is deemed to be interested in the shares in which Golden Success Profits Ltd is interested for the purpose of Part XV of the SFO.*
- (28) *Sheng Fung Co. Ltd is wholly owned by CHEN Din Hwa. CHEN Din Hwa is deemed to be interested in the shares in which Sheng Fung Co. Ltd is interested for the purpose of Part XV of the SFO.*
- (29) *CHEN Yang Foo Oi is the spouse of CHEN Din Hwa and is deemed to be interested in the shares in which CHEN Din Hwa is interested for the purpose of Part XV of the SFO.*

Except as disclosed above, as of December 31, 2009, no other shareholder, other than directors or chief executives, of the Company had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

In addition to the above, the following table sets forth certain information regarding persons (other than members of the Group) who are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our subsidiaries:

<u>Name of Company's subsidiary</u>	<u>Substantial shareholder of such subsidiary</u>	<u>Nature of Interest</u>	<u>Amount of paid up registered capital</u>	<u>Percentage of registered capital</u>
Xingyan Property Consultancy . . .	Lu Ying (路瑩)	Beneficial	RMB3,000,000	15%
Huizhou Xingyan Property Consultancy Co., Ltd.	Lu Ying (路瑩)	Corporate	RMB500,000	15%
Dongguan Xingyan Property Property Co., Ltd.	Lu Ying (路瑩)	Corporate	RMB500,000	15%
Shenzhen Xinyanhang Property Co., Ltd.	Lu Ying (路瑩)	Beneficial	RMB4,000,000	15%
Shenzhen Fantasia Colour	Tang Xue Bin (唐學斌)	Beneficial	RMB10,000,000	13%
Shenzhen Fantasia Management . .	Tang Xue Bin (唐學斌)	Corporate	RMB5,000,000	13%
Shenzhen Colour Life Network . . .	Tang Xue Bin (唐學斌)	Corporate	RMB10,000,000	13%
Shenzhen Kaiyuan	Tang Xue Bin (唐學斌)	Corporate	RMB5,000,000	13%
Shenzhen Liantang Management . .	Tang Xue Bin (唐學斌)	Corporate	RMB3,000,000	13%
Shenzhen Caiyue Hotel Management	Tang Xue Bin (唐學斌)	Corporate	RMB100,000	13%
Shenzhen Caiyue Hotel	Tang Xue Bin (唐學斌)	Corporate	RMB100,000	13%
Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd.	Jing Liu (敬柳)	Beneficial	RMB28,000,000	40%
Shenzhen Xingyan Investment Development Co., Ltd.	Qiu Qiong Ming (邱瓊明)	Beneficial	RMB100,000,000	48%

<u>Name of Company's subsidiary</u>	<u>Substantial shareholder of such subsidiary</u>	<u>Nature of Interest</u>	<u>Amount of paid up registered capital</u>	<u>Percentage of registered capital</u>
Fantasia (Chengdu) Development Co., Ltd.	Qiu Qiong Ming (邱瓊明)	Corporate	RMB50,000,000	31.2%
Fantasia (Chengdu) Development Co., Ltd.	Sichuan Zhong Xu	Beneficial	RMB50,000,000	10%
Tianjin Songjiang-Fantasia Real Estate Co., Ltd.	Tianjin Songjiang Group	Beneficial	RMB50,000,000	40%
Chengdu Fantasia Property Service	Tang Xue Bin (唐學斌)	Corporate	RMB650,000	13%
Shenzhen Huigang Property Management	Tang Xue Bin (唐學斌)	Corporate	RMB292,500	9.75%
Shenzhen Huigang Property Management	Ai Yong (艾永)	Beneficial	RMB750,000	25%
Yixing Yunhaijian Hotel	Jiang Xu (蔣旭)	Beneficial	RMB400,000	40%
Huaqianli Investment (Beijing)	Huizhou City Guosheng Tushifang Engineering Co., Ltd. (惠州市國勝土石方工程有限公司)	Beneficial	RMB4,000,000	24%
Dongguan Zuoting Youyuan Industry Investment Co., Ltd.	Shenzhen City Meijiangan Investment Development Co., Ltd. (深圳市梅江南投資發展有限公司)	Beneficial	RMB11,250,000	62.5%

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.

As a listed company on The Stock Exchange of Hong Kong Limited, we are subject to the requirements of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) which require certain “connected transactions” with “connected persons” be approved by a company’s independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

The table below sets forth certain material transactions between us and our related parties during the three years ended December 31, 2009.

<u>Transaction</u>	<u>Related relationship</u>	<u>Goods/services provided</u>	<u>Duration of agreement</u>
Loan provided by Fantasia Group (China) Co., Ltd. to Dongguan Zuoting Youyuan Industry Investment Co., Ltd. (the “DZY Loan”)	Financial assistance to an associate of Tianjin Songjiang Group, a connected person)	Loan to an associate of a connected person	Agreement dated October 31, 2006 and until after designated sales target has been achieved
Tenancy agreement between Shenzhen Xingyan Investment Development Co., Ltd. and Xi Fu Hui in relation to a community club (Unit 101) at Self Life (趣園), Shenzhen	Ms. Zeng, a director and one of our Controlling Shareholders as one of the ultimate owners of the connected party	Lease of a community club (Unit 101) at Self Life (趣園), Shenzhen	From August 31, 2008 until December 31, 2012
Management services agreement in relation to San Jiao Zhou Island made between San Jiao Zhou and Shenzhen Colour Life Network . . .	Ms. Zeng, a director and one of our Controlling Shareholders as one of the ultimate owners of the connected party	Advertising, consultancy and management services in respect of the operation of San Jiao Zhou	From January 1, 2008 until December 31, 2010
Design agreement in relation to Shenzhen Love Forever (深圳花郡) between Shenzhen Xingyan Investment Development Co., Ltd. and Cube Architecture	Ms. Zeng, a director and one of our Controlling Shareholders as the ultimate owner of 31% of the related party	Architectural design services in respect of Shenzhen Love Forever (深圳花郡)	Agreement dated May 15 2009 and until the end of project
Guarantees for mortgage loans granted to employees	Financial assistance to certain directors and directors of our subsidiaries	Guarantees for mortgages	N.A.

Below is a brief description of our major ongoing related party transactions.

DZY Loan

On October 31, 2006, Shenzhen Tiankuo Investment Co., Ltd. (“Shenzhen Tiankuo”) and Shenzhen Meijiangan Investment Development Co., Ltd. (“Shenzhen Meijiangan”), as lenders, entered into an agreement (the “DZY Loan Agreement”) with Dongguan Zuoting Youyuan Industry Investment Co., Ltd. (“DZY”), as borrower, under which Shenzhen Tiankuo provided DZY with a loan of RMB55,000,000 (the “DZY Fantasia Loan”) and Shenzhen Meijiangan provided DZY with a loan of RMB93,750,000. The proceeds of such loans were to be used to fund the construction and development of the Zuoting Youyuan (左庭右院) project. On December 31, 2006, Shenzhen Tiankuo assigned the DZY Fantasia Loan to Shenzhen Huaqianli Real Estate Development Co., Ltd. (“Shenzhen Huaqianli”), which in turn assigned such loan to Fantasia Group (China) Co., Ltd., a wholly-owned subsidiary of the Group, on June 18, 2008.

DZY is a project company established to develop the Zuoting Youyuan project. DZY is 37.5%-owned by one of the Group’s wholly owned subsidiaries and 62.5%-owned by Shenzhen Meijiangan. Shenzhen Meijiangan is an independent third-party. Shenzhen Tiankuo is an entity 80%-owned by Ms. Zeng Jie, our controlling shareholder and one of our executive directors, and 20%-owned by Mr. Pan Jun, our Chairman, CEO and one of our executive directors.

Pursuant to the DZY Loan Agreement, the principal amount of both loans are re-payable within 7 days from the day where 90% of the GFA of the Zuoting Youyuan (左庭右院) project has been sold, which is expected to be around the end of 2012. Based on a confirmation by Shenzhen Huaqianli, the amount of interest on the DZY Fantasia Loan was subsequently fixed at RMB14,338,800 for the term of the loan and this amount is payable within 15 days after the day of completion of the above project, which is expected to be around 2011. Our directors are of the view that the DZY Loan Agreement is on fair and commercially reasonable terms.

Xi Fu Hui Tenancy Agreement

On August 31, 2008, Shenzhen Xingyan Investment Development Co., Ltd., as landlord, entered into a tenancy agreement (the “Xi Fu Hui Tenancy Agreement”) with Shenzhen Xi Fu Hui Private Club Management Co., Ltd. (“Xi Fu Hui”) for the rental of unit 101 of the Self Life (趣園) building, located in Shenzhen, PRC, with a total gross floor area of approximately 1,252.3 square meters to be used as a community club.

Shenzhen Xingyan Investment Development Co., Ltd. is a 52%-owned subsidiary of the Group while Xi Fu Hui is indirectly owned by Ms. Zeng Jie, our controlling shareholder and one of our executive directors, and Mr. Pan Jun, our Chairman, CEO and one of our executive directors.

Under the Xi Fu Hui Tenancy Agreement Xi Fu Hui is required to pay Shenzhen Xingyan Investment Development Co., Ltd. a monthly rent of RMB25,046 (US\$44,031), exclusive of management and utility fees. For each of the years ended December 31, 2008 and 2009 Xi Fu Hui paid Shenzhen Xingyan Investment Development Co., Ltd. a total aggregate rent in the amount of RMB300,552, which represented 0.026% and 0.012%, respectively, of the Group’s total revenues for such years. The Xi Fu Hui Tenancy Agreement will terminate on December 31, 2012.

The Xi Fu Hui Tenancy Agreement was entered into on an arm’s length basis and our directors are of the view that such agreement was entered into on fair and commercially reasonable terms with reference to the market value and location of the rental premises at the time of the signing.

San Jiao Zhou Agreement

On January 1, 2008, Shenzhen Colour Life Network Services Company Limited (“Shenzhen Colour Life Network”), a 70%-owned subsidiary of the Group, and Huidong Dayawan San Jiao Zhou Recreation Company limited (“San Jiao Zhou”), an entity indirectly owned by Ms. Zeng Jie and Mr. Pan Jun entered into a management services agreement in relation to San Jiao Zhou Island (三角洲海島) the “San Jiao Zhou Agreement”) pursuant to which Shenzhen Colour Life Network has agreed to provide certain advertising, consultancy and management services to San Jiao Zhou in connection with the operation of San Jiao Zhou Island (三角洲海島).

Under the San Jiao Zhou Agreement San Jiao Zhou has agreed to pay Shenzhen Colour Life Network an annual fee equal to either (i) HK\$300,000 or (ii) 10% of San Jiao Zhou's net cash flow if greater or equal to a specified annual net cash flow target for such year, subject to certain specified limits. For each of the years December 31, 2008, 2009 and 2010, the annual net cash flow target under the San Jiao Zhou agreement is equal to RMB1 million, RMB1.2 million and RMB1.4 million, respectively, while the maximum fee payable to Shenzhen Colour Life Network for each such year is HK\$780,000, HK\$880,000 and HK\$980,000, respectively. The San Jiao Zhou Agreement will terminate on December 31, 2010.

For each of the years ended December 31, 2008 and 2009, San Jiao Zhou paid Shenzhen Colour Life Network fees under the San Jiao Zhou Agreement equal to approximately RMB400 thousand and RMB500 thousand, respectively, which represented 0.034% and 0.043%, respectively, of the Group's total revenue for each such year.

Cube Architecture Design Agreement

On May 15, 2009, Shenzhen Cube Architecture Design and Consultancy Co., Ltd. ("Cube Architecture") entered into design services agreement dated May 15, 2009 (the "Cube Architecture Design Agreement") with Shenzhen Xingyan Investment Development Co., Ltd., pursuant to which Cube Architecture has agreed to provide architectural design services to Shenzhen Xingyan Investment Development Co., Ltd. in connection with the development of Shenzhen Love Forever (深圳莊郡), a residential community project. The Cube Architecture Design Agreement will terminate once the design has been approved by the engineers of Shenzhen Xingyan Investment Development Co., Ltd.

Shenzhen Xingyan Investment Development Co., Ltd. is a 52%-owned subsidiary of the Group. Cube Architecture is 31% owned by Shenzhen Tiankuo which is, in turn, 80% owned by Ms. Zeng Jie and 20% owned by Mr. Pan Jun.

For each of the years ended December 31, 2008 and 2009, Shenzhen Xingyan Investment Development Co., Ltd. paid Cube Architecture fees under the Cube Architecture Design Agreement equal to approximately RMB2,451 thousand and nil, respectively, which represented 0.21% and nil, respectively, of the Group's total revenue for each such year.

The Cube Architecture Design Agreement was entered into on an arm's length basis and our directors are of the view that such agreement was entered into on fair and commercially reasonable terms with reference to the market value of such services.

Guarantees for mortgage loans granted to employees

As of December 31, 2009, we had sold properties to employees of the Group, including our directors and certain directors of our subsidiaries. Such sales were on normal commercial terms save that a discount of not more than 4% was applied in line with policies applicable to all employees of the Group. In line with industry practice, our Company provides guarantees in favour of the banks that grant mortgage financing to the purchasers of our properties. In some cases where our related parties have purchased properties from us and we have guaranteed their mortgages.

Previous transactions with related parties

On September 5, 2007, the Group disposed of its 31% equity interest in Cube Architecture to Ms. Zeng Jie, a director of the Company, for a consideration of approximately RMB667,000, which was determined with reference to our initial investment cost.

On September 5, 2007, the Group disposed of its entire 30% equity interest in Shanghai Tiankuo to Shenzhen Tiankuo for a consideration of approximately RMB9,000,000, which was determined with reference to the registered capital.

On September 17, 2007, the Group disposed of its 20% equity interest in Shenzhen Qiaozhi to Shenzhen Jingrui Investment Development Company Limited (深圳京銳投資發展有限公司) for a consideration of approximately RMB1,900,000, which was determined with reference to the initial investment cost.

On November 14, 2007, the Group disposed of its entire 25% equity interest in Xi Fu Hui to Sunyeer Properties Holdings Company Limited for a consideration of approximately RMB2,500,000, which was determined with reference to the registered capital.

On November 22, 2007, the Group acquired additional 40% equity interest in Shenzhen Kangnian from Shenzhen Tiankuo for a consideration of approximately RMB65,000,000.

In March 2008, we disposed of a residential property in Hong Kong to Ms. Zeng Jie at a consideration of HK\$9.6 million (RMB8.4 million), being the cost of acquisition. This Hong Kong property that is for the sole use of our directors was transferred to Ms. Zeng Jie because it is not our principal business to invest in private residential property in Hong Kong. Other subsidiaries transferred to related parties during the three year period ended December 31, 2009, were not considered as core to our principal businesses. The majority of such companies had marginal losses for the financial year prior to their disposal.

During each of the years ended December 31, 2007, 2008 and 2009, we had sold properties to certain of our key management personnel at a total aggregate consideration of approximately RMB1,038 thousand, RMB4,496 thousand and RMB6,738 thousand, respectively.

On or about October 12, 2009, Shenzhen Xingyan Investment Development Co., Ltd. entered into an advertising agreement with our associate, Beijing Tonglu Tiandi, in relation to television advertisements on the Chinese Channel (中文台) and InfoNews Channel (資訊台) of Phoenix TV, operated by the subsidiaries of Phoenix Satellite Television Holdings Limited. Beijing Tonglu Tiandi is 51% indirectly owned by Shenzhen Tiankuo, and the remaining 49% equity interest is owned by Lv Lin (呂麟), Ms. Zeng Jie's mother. The service provided by Beijing Tonglu Tiandi is on a one-off basis and have ended. The directors are of the view such services were on fair and commercially reasonable terms.

DESCRIPTION OF MATERIAL INDEBTEDNESS AND OTHER OBLIGATIONS

To fund our existing property projects and to finance our working capital requirements, we have entered into financing agreements with various financial institutions and enterprises. As of December 31, 2009, our total borrowings amounted to RMB3,440.1 million. Set forth below is a summary of the material terms and conditions of these loans and other indebtedness.

PRC Loan Agreements

Certain of our PRC subsidiaries have entered into loan agreements with local branches of various PRC banks and financial institutions, including Industrial and Commercial Bank of China, China Construction Bank, The Agricultural Bank of China, Huaxia Bank, SPD Bank, China Everbright Bank, Bank of Chengdu, Bohai International Trust Co., Ltd., China Railway Trust Co., Ltd. and China Resources SZITIC Trust Co., Ltd. These loans include project loans to finance the construction of our projects and loans to finance our working capital requirements. They have terms ranging from 3 months to 96 months, which generally correspond to the construction periods of the particular projects. As of December 31, 2009, the aggregate outstanding amount under these loans totaled approximately RMB3,440.1 million (US\$504.0 million), RMB1,266.3 million (US\$185.5 million) of which was due within one year and RMB2,014.0 million (US\$295.1 million) of which was due between one and three years. Our PRC loans are typically secured by land use rights and properties as well as guaranteed by certain of our other PRC subsidiaries.

Interest

The principal amounts outstanding under the PRC loans generally bear interest at floating rates calculated with reference to the PBOC benchmark interest rate. Floating interest rates are generally subject to annual or quarterly review by the lending banks. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of December 31, 2009, the weighted average interest rate on the aggregate outstanding amount of our PRC loans was 4.96% per annum.

Covenants

Under these PRC loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without obtaining the relevant lender's prior consent:

- creating encumbrances on any part of their property or assets or dealing with their assets in a way that may adversely affect their ability to repay their loans;
- granting guarantees to any third parties that may adversely affect their ability to repay their loans;
- making any major changes to their corporate structures, such as entering into joint ventures, mergers, acquisitions and reorganizations;
- altering the nature or scope of their business operations in any material respect;
- transferring part or all of their liabilities under the loans to a third party;
- prepaying the loans;
- selling or disposing of assets; and
- incurring other indebtedness that may adversely affect their ability to repay their loans.

Events of Default

The PRC loan agreements contain certain customary events of default, including failure to pay the amount payable on the due date, unauthorized use of loan proceeds, failure to obtain the lender's approval for an act that requires the latter's approval, and material breach of the terms of the loan agreement. 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 and financial institutions in connection with some of the PRC loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these loans. Further, as of December 31, 2009, RMB3,044.1 million of the PRC loans were secured by land use rights and properties held by the subsidiary borrowers and/or our other PRC subsidiaries.

Hong Kong Loan Agreement

On October 28, 2009, our wholly owned subsidiary, Hong Kong Kangnian Trading Company Limited, entered into a term loan facility with the China Construction Bank (Asia) Corporation Limited. The term of the facility is one year from the first drawdown date, the total amount of the facility is not to exceed US\$100 million, and the interest is calculated on a daily basis and is equal to 1% per annum above the London Interbank Offered Rate for lending US dollars. The full amount available under the facility was drawdown on October 30, 2010 and as of December 31, 2009, such amount remained outstanding. The term loan facility is secured by a standby letter of credit issued by China Construction Bank Corporation, Shenzhen Branch for US\$104.2 million with a term of 13 months. The standby letter of credit is guaranteed by Fantasia Group (China) Co., Ltd. with a pledge of RMB102 million provided by Shenzhen Kangnian Technology Co., Ltd., as well as a mortgage over property rights.

In April 2010, our wholly owned subsidiary, Fantasia Investment Holding Company Limited, entered into a loan agreement with The Hongkong and Shanghai Banking Corporation Limited for a loan of HK\$165 million (US\$21.3 million) and a revolving credit facility of up to HK\$85 million (US\$11.0 million) for working capital purposes. Both facilities carry an interest rate of Hong Kong inter-bank offered rate plus 2% per annum and are subject to reviews by the bank at any time and in any event a review by April 1, 2011 and subject to the bank's overriding right of repayment on demand. These facilities are secured by a limited guarantee of up to HK\$250 million by Fantasia Holdings Group Co., Limited and a cash deposit in RMB or other currency in an amount equivalent to Fantasia Investment Holding Company Limited's outstanding loan balance in its bank accounts at HSBC Bank (China) Company Limited. In addition, Fantasia Group Holdings Co., Ltd. is required to maintain a consolidated net external gearing (i.e., ratio of total interest bearing debt to consolidated tangible net worth plus non-redeemable preference shares and minority interest) of not more than 0.9 and a consolidated tangible net worth of not less than RMB3,000 million at all times and to advise the bank of any major changes in shareholdings from HSBC NF China Investors Ltd. or its subsidiaries.

Third Party Shareholder Entrusted loans

On April 10, 2009, Tianjin Songjiang-Fantasia Real Estate Co., Ltd. and its shareholder Tianjin Songjiang Group Co., Ltd. (an independent third party to Fantasia Group) entered into an entrusted loan agreement according to which Tianjin Songjiang Group Co., Ltd. entrusted RMB99,340,000 to the Bank of Beijing Co., Ltd., Tianjin Development Zone Branch to be loaned to Tianjin Songjiang-Fantasia Real Estate Co., Ltd. The term of the entrusted loan is from April 10, 2009 until April 9, 2011. Interest is calculated at a rate equal to 130% of the benchmark rate. The entrusted loan proceeds are to be used on the Tianjin Hailrun Plaza (天津喜年廣場) project. No guarantee has been provided in respect of the entrusted loan.

Customer Guarantees

In line with industry practice, we provide guarantees to mortgagee banks in respect of mortgage loans taken out by purchasers of our properties. Such guarantee obligations typically terminate upon the delivery of the relevant property ownership certificates on the underlying property to the bank. As of December 31, 2009, the aggregate outstanding amount guaranteed was RMB1,626.3 million.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to Fantasia Holdings Group Co., Limited, 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 the “JV Subsidiary Guarantor.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of May 12, 2010, 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 50th Floor, Citibank 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 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, the JV Subsidiary Guarantees and the Collateral”;
- 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).

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Notes will be secured by a pledge of the Collateral as described below under the caption “— Security” and will:

- be entitled to a first priority lien on the Collateral (subject to any Permitted Liens); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on May 12, 2015, unless earlier redeemed pursuant to the term thereof and the Indenture.

The Notes will bear interest at 14% 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 May 12 and November 12 of each year (each an “Interest Payment Date”), commencing November 12, 2010. Interest on the Notes will be paid to Holders of record at the close of business on April 27 or October 28 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\$100,000 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 in the Borough of Manhattan, The City of New York (which initially will be the corporate trust administration office of the Paying Agent, 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

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 (i) those Restricted Subsidiaries organized under the laws of the PRC (the “PRC Non-Guarantor Subsidiaries”) and (ii) Talent Bright International Ltd., Fantasia Property Management (International) Co., Precise Idea Ltd., Fantasia Hotel Management (International) Co., Winning Sky International Ltd. and Hong Kong Kongnian Trading Co., Ltd. (the “Other Non-Guarantor Subsidiaries”).

The Subsidiary Guarantors are holding companies that do not have significant operations. The PRC Non-Guarantor Subsidiaries and Other Non-Guarantor Subsidiaries are collectively referred to herein as the “Non-Guarantor Subsidiaries.”

None of the existing 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. Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries organized under the laws of the PRC 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.

The Company will use its commercially reasonable best efforts to take all necessary actions, including obtaining necessary consents or governmental approvals, to cause each of the Other Non-Guarantor Subsidiaries to become a Subsidiary Guarantor or JV Subsidiary Guarantor promptly after such Other Non-Guarantor Subsidiary commences investment for the purposes of commencing business activities, or if any such Other Non-Guarantor Subsidiary has commenced business activities as of the Original Issue Date, as soon as practicable after the Original Issue Date.

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 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, the Company may, concurrently with the consummation of such sale or issuance, 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 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;
- as of the date of execution of the JV Subsidiary Guarantee, after giving effect to the issuance or sale of Capital Stock in such JV Subsidiary Guarantor, the Non-Guaranteed Portion with respect to all of the JV Subsidiary Guarantors then existing and their respective Restricted Subsidiaries does not exceed 10.0% of Total Assets;
- all capital contributions (by way of transfer of cash or other property or any payment for property or services for the use of others or otherwise) to be made into a JV Subsidiary Guarantor from the date of the sale of existing Capital Stock or issuance of new Capital Stock as referred to above, shall be made directly or by contribution of assets or services having an equivalent Fair Market Value by (i) the Company and its Restricted Subsidiaries and (ii) such Independent Third Party that purchased or subscribed for Capital Stock in the JV Subsidiary Guarantor in proportion to their respective direct or indirect ownership percentages of the Capital Stock 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) a duly executed Security Document that pledges in favor of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;

- (iii) 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
- (iv) 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, 2009, the Company and the Subsidiary Guarantors had no consolidated borrowings.

As of December 31, 2009, the Non-Guarantor Subsidiaries had total liabilities of approximately RMB3,440.1 million (US\$504.0 million) and the Non-Guarantor Subsidiaries had capital commitments of approximately RMB1,060.4 million (US\$155.3 million) and contingent liabilities of approximately RMB1,626.3 million (US\$238.3 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).

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC), promptly upon becoming a Restricted Subsidiary, 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.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantee is referred to as a "Future Subsidiary Guarantor" and upon execution of the applicable supplemental indenture to the Indenture will be a "Subsidiary Guarantor."

In addition, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral,” the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to a first ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption “— Security;” and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The JV Subsidiary Guarantee of each JV Subsidiary Guarantor will not be secured.

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 and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors 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, the JV Subsidiary Guarantees and the Collateral — 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

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 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; or
- upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee.

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;
- as of the date of execution of the JV Subsidiary Guarantee, after giving effect to the issuance or sale of Capital Stock in such JV Subsidiary Guarantor, the Non-Guaranteed Portion with respect to all of the JV Subsidiary Guarantors then existing and their respective Restricted Subsidiaries does not exceed 10.0% of Total Assets;

- all capital contributions (by way of transfer of cash or other property or any payment for property or services for the use of others or otherwise) to be made into a JV Subsidiary Guarantor from the date of the sale of existing Capital Stock or issuance of new Capital Stock as referred to above, shall be made directly or by contribution of assets or services having an equivalent Fair Market Value by (i) the Company and its Restricted Subsidiaries and (ii) such Independent Third Party that purchased or subscribed for Capital Stock in the JV Subsidiary Guarantor in proportion to their respective direct or indirect ownership percentages of the Capital Stock of such JV 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 and shareholders of such JV Subsidiary Guarantor will be limited to the JV Entitlement Amount;
 - (ii) a duly executed Security Document that pledges in favor of the Trustee the Capital Stock of such JV Subsidiary Guarantor held by the Company or any Subsidiary Guarantor, but not the Capital Stock of the direct or indirect Subsidiaries of such JV Subsidiary Guarantor;
 - (iii) 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
 - (iv) 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.

Security

The Company has agreed, for the benefit of the Holders, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors (the “Collateral”) (subject to Permitted Liens and *pari passu* sharing described below) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

The initial Subsidiary Guarantor Pledgors are Ace Link Pacific Limited, Fantastic Victory Limited and Wisdom Regal Limited.

None of the Capital Stock of the Non-Guarantor Subsidiaries will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future. If any JV Subsidiary Guarantor is established, the Capital Stock of such JV Subsidiary Guarantor owned by the Company or any Subsidiary Guarantor will be pledged to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, as the case may be, in the manner described above. However, none of the JV Subsidiary Guarantors will provide a Security Document pledging the Capital Stock of its direct or indirect Subsidiaries as security in favor of the Trustee.

The Company has also agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor (other than a JV Subsidiary Guarantor, if any) to pledge, the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC) after the Original Issue Date, promptly upon such Person becoming a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges capital stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company’s and each of the Subsidiary Guarantor Pledgors’ obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantee may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See “— Release of Security” and “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Collateral — The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other *pari passu* secured indebtedness.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) and any Pari Passu Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any such Pari Passu Subsidiary Guarantee, “Permitted Pari Passu Secured Indebtedness”); *provided* that (1) the Company or such Subsidiary Guarantor Pledgor was permitted to Incur such Indebtedness under the covenant under the caption “— Limitation on Indebtedness and Preferred Stock”, (2) the holders of such Indebtedness (or their representative) become party to the Intercreditor Agreement referred to below; (3) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such Pari Passu Subsidiary Guarantee is substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor Pledgor than the provisions of the Indenture and the Security Documents; and (4) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee an Opinion of Counsel and Officers’ Certificate with respect to corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents. The Trustee will be permitted and authorized, without the consent of any Holder, to enter into any amendment to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph and the terms of the Indenture (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

Prior to the first Incurrence of any Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the Trustee will enter into an intercreditor agreement (the “Intercreditor Agreement”), without requiring any instruction or consent from the Holders, with the Company, the Subsidiary Guarantor Pledgors and the holders of such Permitted Pari Passu Secured Indebtedness (or their representative). The Intercreditor Agreement will provide, among other things, that (1) the parties thereto shall share equal priority and pro rata entitlement in and to the Collateral; (2) the conditions that are applicable to the release of or granting of any Lien on such Collateral; and (3) the conditions under which the parties thereto will enforce their rights with respect to such Collateral and the Indebtedness secured thereby.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement, any amendments or modifications thereto, and any future intercreditor agreement required under the Indenture.

Enforcement of Security

The first priority Liens (subject to Permitted Liens) securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, will be granted to the Trustee. The Trustee, subject to the Intercreditor Agreement (if any), will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the written instruction of the Holders to exercise remedies under the Security Documents. The Trustee has agreed to act as secured party on behalf of the holders under the applicable Security Documents, to follow the instructions provided to it under the Indenture, the Security Documents and the Intercreditor Agreement (if any) and to carry out certain other duties.

The Indenture and/or the Security Documents principally provide that, at any time while the Notes are outstanding, the Trustee has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

All payments received and all amounts held by the Trustee in respect of the Collateral under the Security Documents will be, subject to the Intercreditor Agreement (if any), applied as follows:

first, to the Trustee to the extent necessary to reimburse the Trustee for any expenses incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing its remedies under the Security Documents and preserving the Collateral and all amounts for which the Trustee is entitled to indemnification under the Security Documents;

second, to each of the Agents to the extent necessary to reimburse each of the Agents for any unpaid fees and amounts due to any of the Agents and any expenses incurred by such Agents in connection with the performance of its obligations under the Indenture and all amounts for which each of the Agents is entitled to indemnification under the Indenture.

third, to the Trustee for the benefit of Holders and, to the extent applicable, to holders of Permitted Pari Passu Secured Indebtedness (or their representative); and

fourth, any surplus remaining after such payments will be paid to the Company or the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Trustee may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification to its satisfaction. In addition, the Trustee's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Trustee's Liens on the Collateral. Neither the Trustee nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Trustee for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Trustee arising out of the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the negligence or willful misconduct of the Trustee.

This section, "— Enforcement of Security," shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with "— Permitted Pari Passu Secured Indebtedness" above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption "— Defeasance — Defeasance and Discharge;"
- upon certain dispositions of the Collateral in compliance with the covenants under the captions "— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" or "— Limitation on Asset Sales" or in accordance with the provision under the caption "— Consolidation, Merger and Sale of Assets;"
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture; and

- in connection with and upon execution of a JV Subsidiary Guarantee to replace a Subsidiary Guarantee, with respect to all pledges of Capital Stock granted by such JV Subsidiary Guarantor in its direct and indirect Subsidiaries, and in accordance with the terms of the Indenture.

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 under the first paragraph of 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, 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 May 12, 2013, 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 114% 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 method as the Trustee deems fair and appropriate.

A Note of US\$100,000 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.

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, 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, the Subsidiary Guarantees or the JV Subsidiary Guarantees, as the case may be, 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, Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, 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 Relevant 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 or beneficial owner, as the case may be, 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 (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 is proposed and becomes effective (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, 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 with respect to any Incurrence of Indebtedness on or prior to December 31, 2010 and 3.5 to 1.0 with respect to any Incurrence of Indebtedness thereafter. 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 any Permitted *Pari Passu* Secured Indebtedness of the Company) 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;
 - (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 Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (p) or (r) 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;

- (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 sum of (1) the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (h) (together with refinancings thereof, but excluding any Contractor Guarantee Incurred under this clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate amount of all Indebtedness permitted and then outstanding under clause (p) below does not exceed an amount equal to 15% 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 or trade guarantees issued in the ordinary course of business to the extent that such letters of credit or trade guarantees 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) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or, (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (f) or (h) above or clause (n) below or (iii) Guarantees by any JV Subsidiary Guarantor of Indebtedness of any other JV Subsidiary Guarantor that is a direct or indirect Subsidiary or parent of such JV Subsidiary Guarantor, which Indebtedness was permitted to be Incurred by another provision of this 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\$20.0 million (or the Dollar Equivalent thereof);
- (o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock in a Restricted Subsidiary 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;
- (p) Preferred Stock or Disqualified Stock issued by a PRC Subsidiary in connection with, and Indebtedness of the Company or a PRC Restricted Subsidiary constituting a Guarantee by, or grant of a Lien on the assets of, the Company or a PRC Subsidiary in favor of an Insurance Company Investor with respect to the obligation to pay a guaranteed or preferred return to such Insurance Company Investor on Capital Stock of such PRC Restricted Subsidiary held by such Insurance Company Investor, provided that on the date of such Incurrence of all such Indebtedness and after giving effect thereto, the sum of (1) the aggregate amount of all Indebtedness permitted and then outstanding under this clause (p) plus (2) the aggregate principal amount outstanding of all Indebtedness permitted under clause (h) above (together with refinancing thereof, but excluding any Contractor Guarantee Incurred under such clause (h) to the extent the amount of such Contractor Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 15% of Total Assets; and

- (r) 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\$ 10.0 million (or the Dollar Equivalent thereof).
- (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.

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 other than (i) the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or (ii) the purchase of Capital Stock of a Restricted Subsidiary held by any Insurance Company Investor;
- (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 Wholly Owned 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 the first day of the fiscal quarter during which the Notes are originally issued and ending on the last day of the Company’s most recently ended fiscal

quarter 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\$5.0 million (or the Dollar Equivalent thereof).

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 of an aggregate amount not to exceed HK\$85.5 million (or the Dollar Equivalent thereof) for the fiscal year of 2009, which has been recommended by the Board of Directors for approval at the annual general meeting of the shareholders to be held in May 2010; or
- (6) the payment of 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;

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, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor 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; or

- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness of the type described under clause (2)(h) or permitted under clause (2)(n) or 2(r) 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, with respect to Indebtedness of the type described in clause 2(h) or permitted under clause 2(r), 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.

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;
- (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 sale of shares of all the Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance 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 other Restricted Subsidiary, unless (1)(a) 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 (b) 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 or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (2)(c), (d) or (m)(ii) (other than a Guarantee by a PRC Restricted Subsidiary of the Indebtedness of a non-PRC Restricted Subsidiary that is not a Subsidiary of such PRC Subsidiary), under the caption “— Limitation on Indebtedness and Preferred Stock.”

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\$3.0 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 to directors of the Company who are not employees of the Company;
- (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) or (2) 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; and
- (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.

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 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 Subsidiary Guarantor 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 on the Collateral (other than Permitted 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 (other than the Collateral), 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 may enter into a Sale and Leaseback Transaction if:

- (1) the Company could have (a) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the first paragraph of 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 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\$10.0 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; or
- (2) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties or assets that will be used in the Permitted Businesses ("Replacement Assets").

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\$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceeds US\$10.0 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; (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); (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; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under “— Security.”

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; 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 and 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,” or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a first priority Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption “— Security;”
- (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 having an outstanding principal amount of US\$5.0 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\$5.0 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 Restricted 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 Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted 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 Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

- (8) the Company or any Restricted 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 Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors;
- (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;
- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a first priority security interest in the Collateral (subject to any Permitted Liens).

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 request 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 Restricted 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. In addition, if an Event of Default occurs and is continuing, the

Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See “— Security.”

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.

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 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 request and the offer of indemnity; 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, 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 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, the Notes and the Security Documents, 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, the Notes and the Security Documents, 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 “— 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, the Notes and the Security Documents, 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, the Notes and the Security Documents, 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)) 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; 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."

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 and the Security Documents 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 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, the Intercreditor Agreement or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement or any Security Document;
- (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 any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor and the corresponding Collateral as provided or permitted by the terms of the Indenture;
- (7) add additional Collateral to secure the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (8) 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;
- (9) effect any changes to the Indenture in a manner necessary to comply with the procedures of DTC;
- (10) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee to enter into the Intercreditor Agreement, or any amendments to the Intercreditor Agreement, the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture); or
- (11) make any other change that does not materially and adversely affect the rights of any Holder.

Amendments With Consent of Holders

The Indenture, the Intercreditor Agreement or any Security Document 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 Agents may amend or 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) release any Collateral, except as provided in the Intercreditor Agreement, the Indenture and the Security Documents;
- (9) 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;
- (10) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of the Intercreditor Agreement, any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) 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;
- (13) change the redemption date or the redemption price of the Notes from that stated under the captions “— Optional Redemption” or “— Redemption for Taxation Reasons;”
- (14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts; or
- (15) 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 note registrar (the “Note Registrar”) and paying 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. 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.

None of the Trustee, the Paying Agent, the Note Registrar, or the security agent nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement (if any), for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so, except as a result of the Agent’s own fraud, gross negligence or willful misconduct.

Citicorp International Limited will initially act as Trustee and the security agent under the Security Documents in respect of the Lien over the Collateral. The Trustee, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee and the security agent may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the interests of the Holders and the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any). Neither the Trustee nor the security agent will be under any obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any), unless such Holders and/or the holders (or their representatives) of Permitted Pari Passu Secured Indebtedness (if any) have offered to the Trustee and/or the security agent indemnity and/or security satisfactory to the Trustee and/or the security agent against any loss, liability or expense.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located 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.

Citicorp International Limited, will initially act as Trustee under the Security Documents in respect of the Security over the Collateral. The Trustee, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee may have obligations under the Security Documents that are in conflict with the interests of the Holders. The Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders unless such Holders have offered to the Trustee indemnity or security reasonably satisfactory to the Trustee against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee in respect of such risks.

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 a holder of Notes (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 CT Corporation System 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. The relevant pledge documents pursuant to “— Security” will be governed under the laws of the jurisdiction in which the relevant Subsidiary Guarantor is incorporated.

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 the principal amount of such Note on maturity date, plus all required remaining scheduled interest payments due on such Note through the maturity date (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 of Capital Stock of a Subsidiary or issuance of Capital Stock by a Restricted 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;” and

- (7) 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.

“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, but excluding debt securities convertible into such equity.

“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% 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 election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose

election 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.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors.

“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 the remaining term of the Notes to be redeemed 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 the remaining term of such Notes.

“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 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 date that is 183 days after 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 date that is 183 days after 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.

“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) result 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 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 four fiscal quarters 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 “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter 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 Four Quarter 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 Four Quarter 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 generally accepted accounting principles in Hong Kong as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“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 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; *provided* that such Indebtedness is not reflected on the balance sheet of the Company or any Restricted Subsidiary (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings 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.

"Insurance Company Investor" means an Independent Third Party that is an insurance company organized under the laws of the PRC or an Affiliate of such an insurance company that acquires a minority interest in the Capital Stock of a Subsidiary of a PRC Restricted Subsidiary.

"Intercreditor Agreement" has the meaning set forth under "— Security."

“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.

“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.

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 Company’s proportionate interest in 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,” “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.

“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 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).

“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.

“Non-Guaranteed Portion” means, at any time of determination with respect to all of the JV Subsidiary Guarantors then existing and their respective Restricted Subsidiaries, the aggregate value (without duplication) of the equity interests held by each Independent Third Party in any JV Subsidiary Guarantor as determined by multiplying (x) the total assets as shown on the balance sheet of the relevant JV Subsidiary Guarantor for its most recently ended semi-annual period (or, in the case of the JV Subsidiary Guarantor executing such JV Subsidiary Guarantee and any other Restricted Subsidiary of the Company that became a JV Subsidiary Guarantor after the end of the most recently ended semi-annual period, as shown on the balance sheet of such JV Subsidiary Guarantor after giving pro forma effect to the sale or issuance of Capital Stock to the relevant Independent Third Parties) by (y) the proportionate ownership of all Capital Stock held by such Independent Third Party in such JV Subsidiary Guarantor, provided that (A) assets attributable to any Unrestricted Subsidiary of such JV Subsidiary Guarantor and (B) assets which would be eliminated from the calculation of Total Assets of the Company for the relevant semi-annual period shall be excluded from the calculation of total assets in clause (x) above.

“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\$100,000 or integral multiples of US\$1,000.

On 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 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\$100,000 or integral multiples of US\$1,000. 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.

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.

“Opinion of Counsel” means a written opinion from legal counsel who is reasonably acceptable to the Trustee.

“Ordinary Course Operating Lease” means the leases entered into in the ordinary course of its business by Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd. of serviced apartments that have been developed and sold by another Restricted Subsidiary to individual investors for a term of no more than three years, pursuant to which Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd. provides management services for such serviced apartments and retain any rental proceeds from tenants that it finds.

“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.

“Permitted Holders” means any or all of the following:

- (1) Pan Jun or Zeng Jie Baby;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) or (3) of the definition of Affiliate) of the Person 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% by Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary 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 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 in a Permitted Business;
- (2) 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; and
- (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 direct or indirect 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.

“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 permitted by clause (f) of the second paragraph of the covenant under the caption “— 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 “— 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) Liens under the Security Documents;
- (14) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “— Security — Permitted Pari Passu Secured Indebtedness”;
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) 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 “— Limitation on Indebtedness and Preferred Stock”;
- (17) 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;
- (18) Liens (including extensions and renewals thereof) upon real or personal property acquired after the Original Issue Date; *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 (18) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

- (19) 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;
- (20) 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;
- (21) 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; and
- (22) Liens granted by the Company or a PRC Restricted Subsidiary in favor of an Insurance Company Investor to secure the obligations of a Subsidiary of such PRC Restricted Subsidiary in which such Insurance Company Investor holds or acquires a minority equity interest to pay a guaranteed or preferred return to such Insurance Company Investor;

provided that, with respect to the Collateral, “Permitted Liens” shall only refer to the Liens described in clauses (1), (6), (13) and (14) of this definition.

“Permitted Pari Passu Secured Indebtedness” has the meaning set forth under “— Security — Permitted Pari Passu Secured Indebtedness.”

“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) and (g) 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.

“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.

“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.

“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 “B-” 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. 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.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services and its affiliates.

“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. Notwithstanding the foregoing, “Sale and Leaseback Transaction” shall not include the sale or transfer of real property to another Person that is leased by the Company or any Restricted Subsidiary pursuant to an Ordinary Course Operating Lease.

“Security Documents” means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Trustee and/or any Holders in any or all of the Collateral.

“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 consideration that is not more than the appraised value of such Capital Stock of such Person (determined by an independent appraisal firm, accountancy firm or investment bank of recognized international standing appointed by the Company) 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.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity 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.

“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.

“Subsidiary Guarantor Pledgor” means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“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) 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) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with Bank of China, Bank of Communications, China Agricultural Bank, China Everbright Bank, China Construction Bank, China Merchants Bank, Huaxia Bank, Shanghai Pudong Development Bank, Industrial Bank Co., Ltd., Nanyang Commercial Bank, Ltd., China Minsheng Banking Corp., Ltd., Shenzhen Ping An Bank, Hongkong and Shanghai Banking Corporation, Shenzhen Development Bank, Guangdong Development Bank, Bank of Chengdu, Hua Xia Bank Co., Ltd., Shanghai Pudong Development Bank Co., Ltd. and Industrial Bank Co., Ltd., (ii) any other bank, trust company or other financial institution organized under the laws of the PRC or Hong Kong whose long-term debt is rated as high or higher than any of

those banks described in clause (i) of this paragraph or (iii) any other bank, trust company or other financial institution organized under the laws of the PRC or Hong Kong; *provided* that, in the case of clause (iii), such deposits do not exceed US\$ 10.0 million (or the Dollar Equivalent thereof) with any single bank or US\$ 30.0 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination thereafter.

“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, *provided* further that only with respect to the calculation of “Non-Guaranteed Portion,” in the case of a JV Subsidiary Guarantor executing a JV Subsidiary Guarantee and any other Restricted Subsidiary of the Company that became a JV Subsidiary Guarantor after the end of the most recently ended semi-annual or annual period, the amount of Total Assets shall be calculated after giving pro forma effect to the sale or issuance of Capital Stock to the relevant Independent Third Parties.

“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.

“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 Company 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.

TAXATION

The following summary of certain Cayman Islands, Hong Kong, 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 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.

Cayman Islands

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 issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

The Company has 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 the Company:

- That 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 the Company or its operations; and
- In addition, that 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 the 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 October 30, 2007.

Hong Kong

Withholding Tax. No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax. Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance"), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty. No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong) of a Note.

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 PRC EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% (or lower treaty rate, if any) is applicable to interest payable to investors that are “non-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. Similarly, any gain realized on the transfer of the Notes by such investors is also subject to a 10% (or lower treaty rate, if any) PRC income tax if such gain is regarded as income derived from sources within the PRC. As advised by Commerce & Finance Law Offices, our PRC legal counsel, 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, would be treated as income derived from sources within the PRC and may be subject to PRC tax, which may materially and adversely affect the value of investment in the Notes.

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.

U.S. Federal Income Taxation

CIRCULAR 230: ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES SET FORTH IN THIS OFFERING MEMORANDUM WAS WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING BY THE COMPANY OF THE NOTES. SUCH DISCUSSION WAS NOT INTENDED OR WRITTEN TO BE LEGAL OR TAX ADVICE TO ANY PERSON AND WAS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. The discussion is not a complete description of all the tax considerations that may be relevant to a particular holder. This summary is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as of the date hereof, changes to any of which subsequent to the date of this offering memorandum may affect the tax consequences described herein and may apply retroactively. The discussion addresses only initial purchasers of the Notes that are U.S. Holders (as defined below), that hold the Notes as capital assets, that purchase the Notes in this offering at their “issue price,” which will be the first price at which a substantial amount of the Notes is sold to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) for money, and that have the U.S. dollar as their functional currency. It does not address all of the issues that may be relevant to the tax treatment of investors subject to special rules, such as — banks, insurance companies, investors liable for the alternative minimum tax, beneficial owners of individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, traders that elect mark-to-market treatment, or investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes.

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE U.S. FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES.

U.S. Holders

As used here, “U.S. Holder” means a beneficial owner of Notes that is, for U.S. federal income tax purposes:

- (i) an individual who is a citizen or resident of the United States;
- (ii) a corporation (or other business entity classified as a corporation) created or organized under the laws of the United States, any State thereof or the District of Columbia;
- (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source;
or
- (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable United States Treasury regulations to be treated as a U.S. person.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes purchases, holds or disposes of the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A U.S. Holder that is a partner in a partnership holding the Notes is urged to consult its own tax advisor.

Taxation of Interest

The gross amount of interest payments received by a U.S. Holder (including any foreign tax withhold and any Additional Amounts) with respect to the Notes will generally be includible in taxable income as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder’s method of tax accounting *provided* such interest payments constitute “qualified stated interest,” as defined below.

However, a U.S. Holder of a Note issued with original issue discount, or OID, must include the OID in income as ordinary interest for U.S. federal income tax purposes as it accrues under a constant yield to maturity basis in advance of receipt of the cash payment attributable to such income, regardless of such U.S. Holder’s regular method of tax accounting. Generally, a Note will have OID to the extent that its stated redemption price at maturity exceeds its issue price. However, a Note generally will not have OID

if the stated redemption price at maturity exceeds its issue price by less than 1/4 of 1% of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity, or de minimis OID. The stated redemption price at maturity of a Note is the total of all payments due on the Note other than payments of "qualified stated interest." In general, "qualified stated interest" is interest that is unconditionally payable at least annually at a single fixed rate.

A U.S. Holder may elect to recognize all of the interest and discount on a Note (including de minimis OID) using a constant yield method. The constant yield election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the U.S. Internal Revenue Service.

Interest payments and OID received or accrued on the Notes will generally be from foreign sources for U.S. federal income tax purposes and will generally be treated as "passive category income" or, in certain cases, "general category income" for U.S. foreign tax credit purposes. Subject to applicable limitations, foreign income taxes withheld from payments in respect of the Notes, if any, may be creditable against U.S. Holder's federal income tax liability. The U.S. foreign tax credit rules are extremely complex. U.S. Holders should consult their own tax advisors regarding the availability of U.S. foreign tax credits and the application of the U.S. foreign tax credit rules to their particular situation.

Taxation of the Sale, Exchange, Redemption or Retirement of a Note

Upon the sale, exchange, redemption or retirement of a Note, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale, exchange, redemption or retirement (less any accrued but unpaid interest, which will be taxable as such) and the U.S. Holder's adjusted tax basis in such Note. A U.S. Holder's adjusted tax basis in a Note will generally equal the amount the U.S. Holder paid to acquire the Note increased by any OID included in the U.S. Holder's income with respect to the Note and reduced by any payments, other than qualified stated interest payments, previously received by the U.S. Holder. Gain or loss recognized by a U.S. Holder generally will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year at the time of disposition. Certain non-corporate U.S. Holders (including individuals) may qualify for preferential rates of U.S. federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations. Gain or loss realized by a U.S. Holder on the sale, exchange, redemption or retirement of a Note generally will be treated for foreign tax credit purposes as gain or loss arising from sources within the United States. However, with respect to a U.S. Holder that is eligible for the benefits of the United States-PRC Income Tax Convention, if the Company is deemed to be a PRC resident enterprise and gain from the disposition of a Note is taxed under the EIT Law, such gain generally may be treated as arising from sources within the PRC. See "Taxation — PRC Taxation." Each prospective purchaser is urged to consult their independent tax advisors regarding the tax consequences if a foreign withholding tax is imposed on the disposition of a Note, including the availability of the foreign tax credit under the investor's particular circumstances.

Information Reporting and Backup Withholding

Payments of interest, principal or proceeds from the disposition of a Note may be subject to information reporting or to backup withholding of U.S. federal income tax if a recipient who is a U.S. Holder fails to furnish to the paying agent with respect to the Notes an Internal Revenue Service Form W-9 containing such U.S. Holder's taxpayer identification number and certain other information or to otherwise establish an exemption from backup withholding. Penalties also may be imposed on a recipient that fails to properly supply an Internal Revenue Service Form W-9 or other evidence of exemption from backup withholding. Any amounts deducted and withheld may be allowed as a credit against the recipient's U.S. federal income tax liability, if any. If backup withholding results in an overpayment of taxes, a refund may be obtained provided that the required information is furnished to the Internal Revenue Service.

PLAN OF DISTRIBUTION

Citigroup Global Markets Inc., Merrill Lynch International and UBS AG are acting as joint book-running managers of the offering and as the Initial Purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, each Initial Purchaser named below has severally agreed to purchase, and we have agreed to sell to that Initial Purchaser, the principal amount of the Notes set forth opposite the initial purchaser's name.

Initial Purchaser	Principal Amount of Notes
Citigroup Global Markets Inc.	US\$ 54,000,000
Merrill Lynch International.	US\$ 54,000,000
UBS AG	US\$ 12,000,000
Total	US\$120,000,000

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers must purchase all the Notes if they purchase any of the Notes.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A) ("QIBs") in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantee (if any) have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

We have agreed that, for a period of 90 days from the date of this offering memorandum, we will not, without the prior written consent of the Initial Purchasers, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any debt securities issued or guaranteed by us. The Initial Purchasers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The Notes will constitute a new class of securities with no established trading market. Approval-in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

In connection with the offering, the Initial Purchasers may purchase and sell Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the initial purchasers of a greater number of Notes than they are required to purchase in the offering.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Initial Purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Initial Purchasers may conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchasers commence any of these transactions, they may discontinue them at any time.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in three business days, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wishes to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

No action has been taken or will be taken in any country or jurisdiction that would permit a public offering of the Notes or the possession or distribution of the offering memorandum or any other offering material relating to the Notes in any jurisdiction where action for any such purpose may be required.

The Initial Purchasers have performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

Notice to Prospective Investors in the United Kingdom

No invitation or inducement to engage in investment activity (within the meanings of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”) received by the Initial Purchasers in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which section 21(1) of the FSMA does not apply to the initial purchasers. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the initial purchasers in relation to any Notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Hong Kong

This offering memorandum has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this offering memorandum may not be issued, circulated or distributed in Hong Kong. A copy of this offering memorandum may, however, be issued to a limited number of prospective applicants for the Notes in Hong Kong in a manner which does not

constitute an offer of the Notes to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong). No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person 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” within the meaning of the Securities and Futures Ordinance (Cap. 571. Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the “FIEL”), and disclosure under the FIEL has not been made with respect to the Notes. Accordingly, the Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for reoffering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and 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 persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), 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, in each case subject to compliance with conditions set forth in the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- 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
- 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, shares, debentures and units of shares and debentures 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:
- to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

Where the Notes are initially acquired in reliance of an exemption under Section 274 or Section 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:

- an institutional investor (as defined in Section 4A of the SFA);
- a relevant person (as defined in Section 275(2) of the SFA); or
- any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless the securities acquired are of the same class as our other securities:

- an offer of which has previously been made in or accompanied by a prospectus: and
- which are listed for quotation on a securities exchange.

Notice to Prospective Investors in PRC

This offering memorandum does not constitute a public offer of the Notes, whether by sale of by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering memorandum or any other document.

Notice to Prospective Investors in the Cayman Islands

No Notes will be offered or sold to the public in the Cayman Islands.

Notice to Prospective Investors in the British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Notes.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer sale, resale, charge or other transfer of the Notes.

United States

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation S under the U.S. Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, the Notes are being offered and sold only (1) to QIBs in compliance with Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S under the U.S. 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 have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United State 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, it will do so only: (a) if such purchaser is an initial investor, (i) to us 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 U.S. Securities Act (if available); or (iv) pursuant to an exemption from registration under the U.S. Securities Act provided by Rule 144 (if available), in each case in accordance with any applicable securities law of any State of the United States or (b) pursuant to an effective registration statement under the U.S. 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, charged 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 us and the holder thereof (unless such Note has been sold pursuant to a registration statement that has been declared effective under the U.S. Securities Act):

THIS NOTE AND THE SUBSIDIARY GUARANTEES RELATED TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND ACCORDINGLY, THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED 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 THESE SECURITIES ACT) OR (B) IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH

REGULATION S 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 FANTASIA HOLDINGS GROUP CO., LIMITED; (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); (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 AND NOTE REGISTRAR 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 REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE AND THE PAYING AND TRANSFER AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS; and

7. acknowledge that we, the Paying and Transfer 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 us, the Paying and Transfer 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.

Singapore

Each purchaser of the Notes has acknowledged that this offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each purchaser of the Notes has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, 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, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), 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.

RATINGS

The Notes have been rated B+ by Standard & Poor's Ratings Services and B2 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 and Poor's Rating Services and a corporate family rating of B1 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 Sidley Austin as to matters of United States federal and New York law, Commerce & Finance Law Offices as to matters of PRC law and 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 Davis Polk & Wardwell LLP as to matters of United States federal and New York law and King & Wood as to matters of PRC law.

INDEPENDENT ACCOUNTANTS

Our consolidated financial statements as of and for the three years ended December 31, 2007, 2008 and 2009 included in this offering memorandum have been audited by Deloitte Touche Tohmatsu, certified public accountants, as stated in their reports appearing 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 April 27, 2010.

Litigation

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes or the Subsidiary Guarantees.

No Material Adverse Change

Except as otherwise disclosed in this offering memorandum, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2009 that is material in the context of the issue of the Notes.

Documents Available

For so long as any of the Notes is 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 agents.

For so long as any of the Notes is outstanding, copies of the accountants' reports and/or our published financial statements, if any, including the accountants' report set out in the section entitled "Index to Consolidated Financial Statements" in this offering memorandum, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

Clearing Systems and Settlement

The Notes have been accepted for clearance through the facilities of Euroclear, Clearstream and DTC. Certain trading information with respect to the Notes is set forth below:

	<u>CUSIP</u>	<u>ISIN</u>
Restricted Global Notes	30727QAA9	US30727QAA94
Regulation S Global Notes	G3311LAA2	USG3311LAA29

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear, Clearstream and DTC.

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) or any other subsidiary or associated company of the Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$100,000, with a minimum of 2 lots to be traded in a single transaction 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.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND U.S. GAAP

The audited consolidated financial information included in this offering memorandum has been prepared and presented in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants. Certain differences exist between HKFRS and U.S. GAAP, which might be relevant to the financial information herein.

The matters described below summarize certain differences between HKFRS and U.S. GAAP that may be relevant to our consolidated financial information. We are responsible for preparing the summary below. Such summary should not be construed to be exhaustive. We have not prepared a complete reconciliation of the consolidated financial information and related footnote disclosure between HKFRS and U.S. GAAP and have not quantified such differences. Accordingly, no assurance is provided that the following summary of differences between HKFRS and U.S. GAAP is complete.

Furthermore, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in the audited consolidated financial information or footnotes thereto. Additionally, no attempt has been made to identify future differences between HKFRS and U.S. GAAP that may affect the financial information as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate HKFRS and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify future differences between HKFRS and U.S. GAAP that may affect the financial information as a result of transactions or events that may occur in the future.

In making an investment decision, you must rely upon your own examination of us, the terms of the offering and the financial information. You should consult your own professional advisors for an understanding of the differences between HKFRS and U.S. GAAP, and how those differences might affect the financial information included herein.

Basis of Consolidation

Under HKFRS, consolidation is based on the concept of “control,” which means the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly, more than half of the voting rights of the entity. Even when more than one half of the voting rights is not acquired, control may be evidenced by power: (i) over more than one half of the voting rights by virtue of an agreement with other inventors; (ii) to govern the financial and operating policies of the other entity under a statute or an agreement; (iii) to appoint or remove the majority of the board of directors. A parent is required to present consolidated financial statements in which it consolidates its investments in subsidiaries as required. HKFRS also requires the consolidation of Special Purpose Entities (SPEs). According to Standing Interpretations Committee Interpretation 12 Consolidation — Special Purpose Entities, an entity must consolidate when, in substance, the entity controls the SPE based on the substance of the relationship between an entity and the SPE.

Under U.S. GAAP, consolidation is based on two concepts: (1) “controlling financial interest” and (2) variable interest entities, or VIEs. The concept of controlling financial interest refers to ownership of a majority voting interest. Generally, ownership by one company, directly or indirectly, of over fifty percent of the outstanding voting shares of another company is a condition pointing to ownership and therefore consolidation. Under the concept of variable interest entities in accordance with FASB Interpretation No. 46(R), “Consolidation of variable interest entities — an interpretation of ARB No. 51”, an entity is subject to consolidation if, by design, any of the following conditions exist: (1) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support by any parties, (2) as a group, the equity owners lack characteristic of controlling financial interest, or (3) substantially all of the entity’s activities involve or are conducted on behalf of an investor with disproportionately few decision making rights relative to the investor’s obligation to absorb the entity’s expected losses or the investor’s right to receive the entity’s expected residual returns. VIEs are evaluated for consolidation based on contractual ownership or other interests that expose an entity to the risks and rewards of the VIE.

Business Combination

HKFRS requires all business combinations to be accounted for by applying the purchase method. In case of combinations of entities under common control which are scoped out of business combinations, companies may choose to apply either the pooling of interest method or the purchase method. However, if the purchase method is chosen, there must be substance to the transaction.

Under U.S. GAAP, transfers of net assets or shares between entities under common control are not considered business combinations. In such case, U.S. GAAP requires such transactions to be recognized using historical cost. The receiving entity should present the statement of financial position and other financial information as of the beginning of the reporting period as though the assets and liabilities had been transferred at that date.

Goodwill

Under HKFRS, goodwill represents the excess of the cost of the acquisition over the acquirer's share of the fair value of the identifiable assets and liabilities with any contingency acquired at the date of acquisition. Goodwill arising on acquisition is recognized in the statement of financial position as an asset and is not amortized. Goodwill is reviewed for impairment when events or changes in circumstances indicate that carrying value may not be recoverable and is reviewed at least annually. Goodwill is stated at cost less any impairment in value. Discount on acquisition represents excess of the fair value of net identifiable assets, liabilities and contingent liabilities acquired over fair value of consideration given out and it is recognized in the consolidated statement of comprehensive income as a gain immediately. Any impairment loss for goodwill is not reversed in subsequent periods.

Under U.S. GAAP, the excess of the purchase consideration over the sum of the amounts assigned to the assets acquired less liabilities assumed is accounted for as goodwill. Goodwill arising on acquisition is recognized in the statement of financial position as an asset and is not amortized. If the fair value of the identifiable net assets acquired exceed the cost of the acquired business, the excess over cost (i.e., negative goodwill) should reduce, on a pro rata basis, the amounts assigned to all of the acquired assets with the exception of financial assets (other than investments accounted for by the equity method), assets to be disposed of by sale, deferred tax assets, prepared assets related to pension or other postretirement benefit plans, and any other current assets. Any remaining "negative goodwill" is recognized as an extraordinary gain.

Segment Reporting

Under HKFRS, a business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Under U.S. GAAP, segment information is reported based on operating segments, which are based on separate financial information that is available and regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assessing performance.

Accounting for Real Estate Property Assets

Under HKFRS, properties under development for sale and completed properties held for sale are stated at the lower of cost or net realizable value. A write down of properties under development for sale to the lower of cost or the net realizable value at the close of a fiscal period is a valuation allowance that can be subsequently reversed if the underlying facts and circumstances change. Market value under HKFRS is net realizable value.

Properties under construction are held for operational purposes upon completion are carried at cost less any accumulated impairment losses on completion. Properties held for long-term rental yield or for capital appreciation or both (completed or under development) are classified as investment properties and are carried at fair value with changes in fair value being recognized in profit or loss for the period in which they arise. The carrying amounts are not depreciated.

Under U.S. GAAP, properties held for sale (completed or under development) are stated at the lower of cost or market (lower of the replacement cost and net realizable value minus normal profit margin). A write down of properties under development for sale to the lower of cost or market creates a new cost basis that subsequently cannot be marked up based on changes in underlying facts and circumstances.

Properties held for long-term rental yield or for capital appreciation or internal use are measured at cost less accumulated depreciation and any reduction in value due to impairment. Periodic upward revaluations are not permitted under U.S. GAAP.

The periodic depreciation expenses under HKFRS and U.S. GAAP would differ as a result of the difference in the accounting for investment properties under the two accounting standards.

Borrowing Costs

Under HKFRS, borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed. To the extent the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on the asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a weighted average capitalization rate to the expenditures on that asset. Borrowing costs are capitalized to the extent that such costs are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use or sales. Borrowing costs cease to be capitalized when substantially at the activities necessary to prepare the asset for its intended use or sale are completed. Borrowing costs may include exchange differences that arise from foreign currency borrowings if they are regarded as an adjustment to interest costs.

The approach is similar under U.S. GAAP, except that the exchange differences from foreign currency borrowings are not capitalized and interest earned on funds borrowed to finance the production of the asset would not be netted against the borrowing costs.

Revenue Recognition

Under HKFRS, revenue from sales of properties is recognized upon completion of sale agreements, which refers to the time when the relevant properties have been delivered to the purchasers where risk and rewards are transferred.

Under U.S. GAAP, for real estate sales other than retail land sale, profit is recognized in full on using the full accrual method if (1) a sale is consummated; (2) the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property; (3) the seller's receivable is not subject to future subordination; and (4) the seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property. Where the buyer's initial or continuing investment is inadequate, profit should be recognized by the installment method, the cost recovery method, the reduced profit method, or deposit method upon meeting certain recognition criteria prescribed by U.S. GAAP. Where real estate transactions cannot be considered a sale as a result of the seller's continuing involvement, financing, leasing or profit sharing (or co-venture) method of revenue recognition should be used based on meeting certain criteria.

Impairment of Assets

Under HKFRS, at the end of each reporting period, an entity is required to assess whether there is an indicator of impairment. If an indicator of impairment exists, an asset's recoverable amount is estimated and compared to the carrying value, and an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized as an expense. Reversals of previous provisions of impairment are allowed when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use, which is estimated on a discounted cash flow basis. For the purpose of assessing impairment and determining value in use, assets are grouped at cash generating unit level, or the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

U.S. GAAP requires an assessment for indicators for long-lived assets annually or whenever a triggering event occurs, and an impairment loss to be recognized for long-lived assets, including property, plant and equipment and certain identifiable intangibles where the carrying amount of the asset may not be recoverable. An estimate of the future undiscounted cash flows expected to result from use and eventual disposal of such asset, or the group of assets, is compared to the carrying value to determine whether impairment exists. If it is determined that the asset is impaired, the impairment loss recognized is the difference between the carrying amount of the asset and its fair value based on quoted market value less selling costs, if available. Once such impairments have been recorded, subsequent reversal of impairment charges are not allowed.

Deferred Income Taxes

Under HKFRS, deferred tax assets and liabilities are required to be provided in full using the liability method on carry forward of unused tax losses and temporary differences arising between the tax base of an asset or a liability and its carrying amount in the financial statements, including temporary differences associated with investments in subsidiaries and associates. For investments in subsidiaries and associates, the deferred tax liabilities are not recognized where the timing of the reversal of the temporary difference can be controlled by the parent and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Under U.S. GAAP, deferred tax assets and liabilities are recognized for the tax consequences of carry forward of unused tax losses and temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities (including investment in a subsidiary and equity affiliates). However, deferred tax may not be recognized in relation to an investment in a foreign subsidiary or foreign corporate joint venture, if the undistributed earnings of such investment are invested or will be invested indefinitely, or if the parent can remit the earnings in a tax-free liquidation. A valuation allowance is provided to reduce the amount of deferred tax assets if, in the opinion of management, it is considered more likely than not that some portion of, or all of, the deferred tax asset will not be realized in the future.

Uncertain Tax Positions

Under HKFRS, the general measurement guidance is contained in HKAS 12 "Income taxes" which requires current tax liabilities (assets) for current and prior periods to be measured at the amount to be expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. An entity may choose to

consider tax uncertainties at the level of the individual uncertainty or group of related uncertainties. It may also choose to consider tax uncertainties at the level of its total tax liability to each taxing authority. The amount of provision for uncertain tax positions is measured using either a single best estimate of the most likely outcome or using an expected value (weighted average probability) approach. These provisions are generally classified as part of the current tax liability and presented as non-current if the entity has an unconditional right to defer payment for more than 12 months.

Under U.S. GAAP, FIN 48 “Accounting for Uncertainty in Income Taxes” prescribes the recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosures and transition. Under FIN 48, the tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained based on technical merits upon examination by tax authorities. The uncertain tax position is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. The provisions are measured using cumulative probability of the range of possible outcomes. Under FIN 48, provisions for uncertain tax positions are classified as a long-term liability except for those amounts management expects to require actual cash payment within the next 12 months. The cumulative effect of initially adopting FIN 48 should be recorded as an adjustment to opening retained earnings in the year of adoption. FIN 48 was required to be adopted effective April 1, 2007.

Statement of Cash Flows

Under HKFRS, interest and dividends received and paid are disclosed separately and classified in consistent manner from period to period as either operating activities, investing or financing activities.

U.S. GAAP requires dividends paid classified as financing activities and interest paid, dividends and interest received be classified as operating activities.

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INDEPENDENT AUDITOR'S REPORT



TO THE MEMBERS OF FANTASIA HOLDINGS GROUP CO., LIMITED

花樣年控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Fantasia Holdings Group Co., Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages F-4 to F-71, which comprise the consolidated statements of financial position as at 31 December 2009, 31 December 2008 and 31 December 2007 and the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2009, 31 December 2008 and 31 December 2007 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements have been prepared solely for the purpose set out in note 1 to the consolidated financial statements, and for no other purpose.

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 on the basis set out in note 1 to consolidated financial statements and in accordance with the accounting policies set out in note 3 to the consolidated financial statements which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. 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 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 control relevant to the entity's preparation and 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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, for the purpose of this report set out in note 1 to consolidated financial statements, give a true and fair view of the Group as at 31 December 2007, 2008 and 2009 and of the Group's profit and cash flows for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 April 2010

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For each of the three years ended 31 December 2009

	Notes	2009	2008	2007
		RMB'000	RMB'000	RMB'000
Revenue	7	2,458,673	1,174,211	772,057
Cost of sales		(1,431,812)	(704,734)	(549,220)
Gross profit		1,026,861	469,477	222,837
Other income, gains and losses	8	26,566	59,034	2,726
Gain on fair value changes of investment properties	16	34,476	13,807	86,875
Recognition of change in fair value of completed properties for sales upon transfer to investment properties	26	–	302	2,170
Selling and distribution expenses		(80,480)	(49,837)	(39,616)
Administrative expenses		(177,229)	(162,677)	(94,458)
Finance costs	9	(51,800)	(69,941)	(12,167)
Impairment loss recognised in respect of goodwill	24	–	(2,305)	–
Share of results of associates		(1,899)	(3,789)	(1,548)
Profit before taxation	10	776,495	254,071	166,819
Income tax expense	11	(407,050)	(156,550)	(82,552)
Profit and total comprehensive income for the year		<u>369,445</u>	<u>97,521</u>	<u>84,267</u>
Profit and total comprehensive income for the year attributable to:				
Owners of the Company		373,469	84,259	68,797
Minority interests		(4,024)	13,262	15,470
		<u>369,445</u>	<u>97,521</u>	<u>84,267</u>
Earnings per share – Basic (RMB)	14	<u>0.10</u>	<u>0.02</u>	<u>0.02</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 31 December 2009, 31 December 2008 and 31 December 2007

	Notes	2009	2008	2007
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	15	163,530	50,504	36,181
Investment properties	16	581,368	476,079	459,039
Interests in associates	17	12,941	11,248	6,650
Advance to an associate.	18	72,396	58,240	65,377
Prepaid lease payments	19	164,457	1,561	9,052
Premium on prepaid lease payments	20	45,794	–	–
Prepayment	7	70,586	–	–
Deposits paid for acquisition of subsidiaries . . .	21	423,000	–	–
Deposits paid for acquisition of a property project	22	352,056	–	–
Deferred tax assets	25	88,818	41,531	14,560
		<u>1,974,946</u>	<u>639,163</u>	<u>590,859</u>
CURRENT ASSETS				
Properties for sales	26	4,576,936	3,769,841	2,027,853
Prepaid lease payments	19	4,704	112	256
Premium on prepaid lease payments	20	1,428	–	–
Trade and other receivables	27	987,961	145,739	213,575
Amount due from a shareholder	28	–	21	8
Amounts due from customers for contract works	29	3,808	1,349	6,141
Amounts due from related parties.	30	–	26,856	10,340
Held-for-trading investments	31	–	3,000	–
Tax recoverable.		17,503	30,346	21,331
Restricted bank deposits	32	189,712	37,849	18,032
Bank balances and cash	32	3,696,488	303,046	1,320,657
		<u>9,478,540</u>	<u>4,318,159</u>	<u>3,618,193</u>
CURRENT LIABILITIES				
Trade and other payables	33	873,797	566,116	337,257
Deposits received for sale of properties		2,380,242	1,092,459	1,126,332
Amounts due to directors.	34	–	54,012	27,456
Amounts due to related parties.	35	1,519	99,340	2,892
Loans from shareholders	36	–	683,460	–
Tax payable		544,877	229,787	158,441
Borrowings – due within one year	37	1,266,320	373,050	317,943
		<u>5,066,755</u>	<u>3,098,224</u>	<u>1,970,321</u>
NET CURRENT ASSETS		<u>4,411,785</u>	<u>1,219,935</u>	<u>1,647,872</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,386,731</u>	<u>1,859,098</u>	<u>2,238,731</u>

	<u>Notes</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities	25	32,280	58,991	56,538
Amounts due to related parties	35	99,340	–	–
Loans from shareholders	36	–	–	730,460
Borrowings – due after one year	37	2,173,750	353,750	49,930
		<u>2,305,370</u>	<u>412,741</u>	<u>836,928</u>
		<u>4,081,361</u>	<u>1,446,357</u>	<u>1,401,803</u>
CAPITAL AND RESERVES				
Share capital	38	429,389	9	9
Reserves		<u>3,340,870</u>	<u>1,145,955</u>	<u>1,058,985</u>
Equity attributable to owners of the Company		3,770,259	1,145,964	1,058,994
Minority interests		<u>311,102</u>	<u>300,393</u>	<u>342,809</u>
		<u>4,081,361</u>	<u>1,446,357</u>	<u>1,401,803</u>

The consolidated financial statements on pages F-4 to F-71 were approved and authorised for issue by the Board of Directors on 27 April 2010 and are signed on its behalf by:

Pan Jun
Chairman

Chan Sze Hon
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For each of the three years ended 31 December 2009

	Attributable to owners of the Company									
	Share capital	Share premium	Special reserve	Contribution reserve	Statutory reserve	Discretionary reserve	Accumulated profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000 (note i)	RMB'000 (note ii)	RMB'000 (note iii)	RMB'000 (note iii)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	412	–	(595)	109,226	25,875	1,477	190,956	327,351	292,730	620,081
Profit and total comprehensive income for the year	–	–	–	–	–	–	68,797	68,797	15,470	84,267
Issue of shares	9	734,890	–	–	–	–	–	734,899	–	734,899
Elimination of paid-in capital of existing subsidiaries upon Group Reorganisation	(412)	–	–	(78,964)	–	–	–	(79,376)	–	(79,376)
Acquisition of equity interests in Yixing Jiangnan Shuixiang Tourism Resort Company Limited, Chengdu Xinjin Youbang Real Estate Development Company Limited and Sichuan Ximei Investment Company Limited (note 39(a))	–	–	–	–	–	–	–	–	38,553	38,553
Acquisition of additional equity interests in subsidiaries	–	–	–	2,764	–	–	–	2,764	(38,001)	(35,237)
Surplus on disposal of associates upon Group Reorganisation	–	–	–	2,730	–	–	–	2,730	–	2,730
Disposal of equity interests in subsidiaries (note 40)	–	–	–	2,133	–	–	–	2,133	(7,031)	(4,898)
Partial disposal of equity interests in subsidiaries	–	–	–	–	–	–	–	–	5,848	5,848
Contribution from minority shareholders	–	–	–	–	–	–	–	–	35,990	35,990
Transfer	–	–	–	–	1,982	–	(1,982)	–	–	–
Dividend paid	–	–	–	–	–	–	(304)	(304)	(750)	(1,054)
At 31 December 2007 and 1 January 2008	9	734,890	(595)	37,889	27,857	1,477	257,467	1,058,994	342,809	1,401,803
Profit and total comprehensive income for the year	–	–	–	–	–	–	84,259	84,259	13,262	97,521
Acquisition of additional equity interests in subsidiaries	–	–	–	396	–	–	–	396	(56,185)	(55,789)
Capitalisation of shareholder loans	–	–	–	2,315	–	–	–	2,315	1,543	3,858
Transfer	–	–	–	–	1,151	–	(1,151)	–	–	–
Dividend paid to a minority shareholder	–	–	–	–	–	–	–	–	(1,036)	(1,036)
At 31 December 2008 and 1 January 2009	9	734,890	(595)	40,600	29,008	1,477	340,575	1,145,964	300,393	1,446,357
Profit and total comprehensive income for the year	–	–	–	–	–	–	373,469	373,469	(4,024)	369,445
Capitalisation issue of shares	321,115	(321,115)	–	–	–	–	–	–	–	–
Issue of shares	108,265	2,251,911	–	–	–	–	–	2,360,176	–	2,360,176
Share issue expenses	–	(109,350)	–	–	–	–	–	(109,350)	–	(109,350)
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	16,000	16,000
Transfer	–	–	–	–	2,112	–	(2,112)	–	–	–
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	(1,267)	(1,267)
At 31 December 2009	429,389	2,556,336	(595)	40,600	31,120	1,477	711,932	3,770,259	311,102	4,081,361

Notes:

- (i) Special reserve arising from the acquisition of additional equity interests represents the difference between the consideration paid and the carrying amount of net assets acquired and the goodwill or discount on acquisition.
- (ii) Contribution reserve represents (1) the contribution/distribution to shareholders during the group reorganisation, as more fully explained in the paragraph headed “The Reorganisation” in Appendix VIII to the prospectus of the Company dated 12 November 2009 (the “Group Reorganisation”), (2) the difference between the consideration paid and the fair value of net assets acquired from related parties, (3) the difference between the consideration received and the carrying amount of net assets disposed of to related parties during the Group Reorganisation and (4) the capitalisation of shareholder loans.
- (iii) The statutory reserves and discretionary reserves relate to subsidiaries in the People’s Republic of China (the “PRC”) and are non-distributable. Transfers to these reserves are determined by the board of directors or the shareholders’ meeting in accordance with the relevant laws and regulations of the PRC. These reserves can be used to offset accumulated losses, expand the scale of production and business and increase capital upon approval from the relevant authorities.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For each of the three years ended 31 December 2009

	2009	2008	2007
	RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES			
Profit before taxation	776,495	254,071	166,819
Adjustments for:			
Gain on fair value changes of investment properties . . .	(34,476)	(13,807)	(86,875)
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	–	(302)	(2,170)
Share of results of associates	1,899	3,789	1,548
Release of prepaid lease payments	845	149	372
Release of premium on prepaid lease payments	357	–	617
Depreciation of property, plant and equipment	8,902	8,940	8,066
Loss on disposal of property, plant and equipment. . . .	72	1,727	7
Allowance on bad and doubtful debts, net.	225	2,495	1,159
Interest income	(6,038)	(7,951)	(2,396)
Imputed interest income on non-current interest-free advance to an associate	(9,349)	–	–
Finance costs	51,800	69,941	12,167
Net foreign exchange loss (gain)	1,334	(35,586)	2,120
Impairment loss recognised in respect of goodwill . . .	–	2,305	–
Loss on partial disposal of subsidiary	–	–	2,458
Gain on disposal of associates	–	–	(1,632)
Loss on disposal of a subsidiary	–	89	–
Operating cash flows before movements in working capital.	792,066	285,860	102,260
Increase in properties for sales	(832,836)	(1,358,250)	(558,980)
(Increase) decrease in trade and other receivables.	(842,377)	89,313	(21,415)
Increase in prepayment.	(70,586)	–	–
(Increase) decrease in amounts due from customers for contract works	(2,459)	4,792	(1,677)
Decrease (increase) in held-for-trading investments	3,000	(3,000)	–
Increase (decrease) in trade and other payables	167,938	223,856	(52,898)
Increase (decrease) in deposits received for sale of properties	1,287,783	(33,873)	520,532
Cash generated from (used in) operations.	502,529	(791,302)	(12,178)
Enterprise income tax (“EIT”) paid, net.	(124,048)	(101,239)	(45,793)
Land appreciation tax (“LAT”) paid.	(29,067)	(17,643)	(9,834)
Interest paid.	(188,628)	(127,232)	(20,567)
NET CASH FROM (USED IN)			
OPERATING ACTIVITIES	160,786	(1,037,416)	(88,372)

	Notes	2009	2008	2007
		RMB'000	RMB'000	RMB'000
INVESTING ACTIVITIES				
Deposit paid for acquisition of subsidiaries		(423,000)	–	–
Deposit paid for acquisition of a property project		(352,056)	–	–
(Increase) decrease in restricted bank deposits		(151,863)	(19,817)	15,022
Purchases of property, plant and equipment		(49,341)	(26,192)	(11,262)
Increase in investment properties		(55,444)	(2,521)	(27,353)
Acquisition of assets and liabilities through acquisition of subsidiaries (net of cash and cash equivalents acquired)	39(a)	(9,999)	(157,760)	(371,423)
(Advance to) repayment from an associate		(8,399)	1,750	192,014
Repayment from (advance to) related parties		26,856	(1,402)	2,365
Interest received		6,038	7,951	2,396
Proceeds from disposal of investment properties		5,953	–	–
Proceeds from disposal of property, plant and equipment		767	296	97
Repayment from (advance to) a shareholder		21	(13)	(8)
Acquisition of additional equity interests in subsidiaries		–	(241,783)	(75,784)
Addition to prepaid lease payments		–	(15,139)	–
Capital contribution in an associate		–	(3,000)	–
Acquisition of business (net of cash and cash equivalents acquired)	39(b)	–	(2,498)	–
Proceeds from disposal of a subsidiary (net of cash and cash equivalents disposed of)	40	–	(119)	652
Proceeds from disposal of associates		–	–	11,566
Proceeds from partial disposal of subsidiaries		–	–	3,390
NET CASH USED IN INVESTING ACTIVITIES		<u>(1,010,467)</u>	<u>(460,247)</u>	<u>(258,328)</u>
FINANCING ACTIVITIES				
New borrowings raised		3,485,256	800,000	447,480
Issue of shares		2,360,176	–	–
Loans from shareholders		–	–	735,686
Distribution to shareholders		–	–	(79,376)
Proceeds on issue of shares		–	–	734,899
Contribution from a minority shareholder		16,000	–	35,990
Advance from (repayment to) related parties		1,519	98,558	(151,659)
Repayment of borrowings		(771,986)	(440,868)	(365,413)
Repayment of loans from shareholders		(682,680)	–	–
Share issue expenses		(109,350)	–	–
(Repayment to) advance from directors		(54,012)	35,017	(66,392)
Dividend paid to minority shareholders		(1,267)	(1,036)	(750)
Dividend paid to shareholders prior to the Group Reorganisation		–	–	(304)
NET CASH FROM FINANCING ACTIVITIES		<u>4,243,656</u>	<u>491,671</u>	<u>1,290,161</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>3,393,975</u>	<u>(1,005,992)</u>	<u>943,461</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR				
Effect of foreign exchange rate changes		303,046	1,320,657	386,266
		(533)	(11,619)	(9,070)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash				
		<u>3,696,488</u>	<u>303,046</u>	<u>1,320,657</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For each of the three years ended 31 December 2009

1. GENERAL

The Company was incorporated in the Cayman Islands on 17 October 2007 as an exempted company with limited liability under the Companies Law 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”) with effect from 25 November 2009. Its parent is Fantasy Pearl International Limited (“Fantasy Pearl”), a limited liability company incorporated in the British Virgin Islands (the “BVI”). Its ultimate holding company and controlling party is Ice Apex Limited, a limited liability company also incorporated in the BVI. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY 1-1111, Cayman Islands and its principal place of business in Hong Kong is Room 1103, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong while its principal place of business in the People’s Republic of China (the “PRC”) is 27/F, Block A, Hailrun Complex, No.6021 Shennan Boulevard, Shenzhen 518040, Guangdong Province, the PRC.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 47.

Pursuant to the Group Reorganisation, the Company became the holding company of the companies now comprising the Group on 6 December 2007. The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity. The companies now comprising the Group were under the ultimate control of Ms. Zeng Jie and Mr. Pan Jun (together referred to as the “Controlling Equity Holders”). The consolidated financial statements of the Group has been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting under Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the year ended 31 December 2007 have been prepared as if the group structure as at 31 December 2007 had been in existence during the year ended 31 December 2007, or since their respective dates of incorporation or establishment, where this is a shorter period, except for the acquisitions or disposals set out in notes 39 and 40, respectively, and additional acquisitions or partial disposals set out in the following table during the year ended 31 December 2007:

	<u>Acquisition</u>	<u>Disposal</u>
Shenzhen Kangnian Technology Company Limited (“Shenzhen Kangnian”)	40%	–
Chengdu Huaqianli Real Estate Company Limited (“Chengdu Huaqianli”)	9.99%	–
Shenzhen Xingyan Property Management Company Limited (“Shenzhen Fantasia Management”)	–	30%
Shenzhen Fantasia Colour Life Technology Company Limited (“Shenzhen Fantasia Colour”)	–	30%
Shenzhen Kaiyuan Tongji Building Science & Technology Company Limited (“Shenzhen Kaiyuan”)	–	30%
Chengdu Tonghe Real Estate Company Limited (“Chengdu Tonghe Investment”)	–	0.51%
Chengdu Gaojiazhuang Hot Spring Leisure Centre (“Chengdu Huabaili”)	–	0.51%
Chengdu Huawanli Real Estate Company Limited (“Chengdu Huawanli”)	–	0.38%
Fantasia Chengdu Ecological Tourism Development Co., Ltd. (“Fantasia Chengdu Ecological”)	–	0.01%

The above acquisitions and disposals have been accounted for from the respective effective date of the acquisitions or up to the respective effective date of the disposals and in accordance with the respective equity interests in the individual companies attributable to the Controlling Equity Holders before the Group Reorganisation. The interests of owners of the Company other than the Controlling Equity Holders in the combining companies have been presented as minority interests in the Group's consolidated financial statements for the year ended 31 December 2007.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The consolidated financial statements have been prepared solely for the purpose of inclusion in the Company's offering memorandum in connection with the proposed offering of senior notes ("the Prospectus").

The consolidated financial statements are prepared based on:

- (i) the audited consolidated financial statements of the Group as of and for the year ended 31 December 2009, issued in accordance with Hong Kong Financial Reporting Standards dated 20 March 2010; and
- (ii) the audited consolidated financial statements of the Group as of 31 December 2006, 2007 and 2008 and 30 June 2009 and each of the three years ended 31 December 2008 and six months ended 30 June 2009, issued in connection with the proposed listing of the Company's shares on the Main Board of the SEHK, dated 12 November 2009.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied all the new and revised Standards, Amendments and Interpretations issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2009 throughout the three years ended 31 December 2009.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Rights Issues ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁵
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁷
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁶
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments ⁵

- 1 Effective for annual periods beginning on or after 1 July 2009
- 2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
- 3 Effective for annual periods beginning on or after 1 January 2010
- 4 Effective for annual periods beginning on or after 1 February 2010
- 5 Effective for annual periods beginning on or after 1 July 2010
- 6 Effective for annual periods beginning on or after 1 January 2011
- 7 Effective for annual periods beginning on or after 1 January 2013

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 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 HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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 certain investment properties and financial instruments which are measured at fair value, and in accordance with accounting policies set out below.

The consolidated financial statements have been prepared in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporates 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 years are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposed, 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 interest has a binding obligation and is able to make an additional investment to cover the losses.

Merger accounting for business combinations involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or business had been consolidated at the end of previous reporting period or when they first came under common control, whichever is the shorter.

Business combinations

The acquisition of businesses 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 HKFRS 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.

Acquisition of additional interest in subsidiaries

On acquisition of additional interests in subsidiaries, the excess of the cost of the acquisition over the fair values of the underlying assets and liabilities attributable to the additional interests in subsidiaries is debited to goodwill, while discount arising on the excess of the fair values of the underlying assets and liabilities attributable to the additional interest in the subsidiaries over the cost of the acquisition is credited to consolidated statement of comprehensive income.

The difference between the cost of the acquisition and the goodwill/discount on acquisition and the carrying amount of the underlying assets and liabilities attributable to the additional interests in subsidiaries is charged directly to special reserve.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 the profit or loss in the period in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production 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 amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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 that is being constructed or developed for future use as investment property is classified as investment property. 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 construction is completed.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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.

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 those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, interests 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. Where 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, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes 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 recognised for goodwill is not reversed in a subsequent periods.

On subsequent 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.

Properties for sale

Completed properties and properties under development for sale in the ordinary course of business are included in current assets and stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other attributable expenses.

Where property for sale is transferred to investment property when there is a change of intention to hold the property to earn rentals or/and for capital appreciation, which is evidenced by the commencement of an operating lease to another party, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in profit or loss.

Installation contracts

Where the outcome of a contract for the installation of security systems can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by reference to the proportion that billings certified by the customer to date of estimated total revenue for each contract. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received included in other payables. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

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 values of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition 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 generally classified as loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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 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 deposits paid for acquisition of subsidiaries and a property project, trade and other receivables, advance to an associate, amounts due from a shareholder and related parties, restricted bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Financial assets at fair value through profit or loss

Financial assets at FVTPL are classified as financial assets held for trading.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL, are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

Impairment of loans and receivables

Loans and receivables 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 loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

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 trade and other 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 average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade 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 trade and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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 loss 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 a group entity 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 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Trade and other payables, amounts due to directors and a related party, loans from shareholders and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company 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 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 HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 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 the 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 other than goodwill (see accounting policy in respect of goodwill above)

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for properties sold and services provided in the normal course of business, net of discounts.

Sales of properties

Revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

When the completed properties are sold in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred.

Agency fee, service income, management fee, parking fee and consultation fee

Agency fee, service income, management fee, parking fee and consultation fee are recognised when services are provided.

Contract revenue

Contract revenue from installation contract is recognised when the outcome of the contract can be estimated reliably and the stage of completion at the end of reporting period can be measured reliably. Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that billings certified by the customer to date of estimated total revenue for each contract. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Hotel operation

Revenue from hotel operation is recognised upon provision of services.

Interest income

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.

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

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.

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 the 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 tax is recognised 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally 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 differences arise 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 tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, 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 the 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 tax 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 tax 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.

Retirement benefit costs

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the 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 exchange prevailing on the dates of transactions. At the end of each 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 included in profit or loss in the period in which they arise.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the management has made various estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experience, expectations of the future and other information 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Determination of net realisable value of properties under development for sale and completed properties for sale

Properties under development for sale and completed properties for sale are stated at the lower of the cost and net realisable value with aggregate carrying amount of approximately RMB2,027,853,000, RMB3,769,841,000 and RMB4,576,936,000 at 31 December 2007, 2008 and 2009. Cost of each unit in each phase of development is determined using the weighted average method. The net realisable value is the estimated selling price less estimated selling expenses and estimated cost of completion (if any), which are determined based on best available information. Where there is any decrease in the estimated selling price arising from any changes to the property market conditions in the PRC, there may be impairment loss recognised on the properties under development for sale and completed properties for sale.

Land appreciation tax ("LAT")

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 estimate 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.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit or taxable temporary difference will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits or taxable temporary difference together with future tax planning strategies.

Recognition and allocation of construction costs on properties under development

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to completed properties for sale and charged to the consolidated statement of comprehensive income upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate. During the development stage, the Group typically divides the development projects into phases. Costs that are common to different phases are allocated to individual phases based on saleable area. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

5. 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 Group's overall strategy remains unchanged throughout the three years ended 31 December 2009. The capital structure of the Group consists of debt, which includes amounts due to directors disclosed in note 34, amounts due to related parties disclosed in note 35, loans from shareholders disclosed in note 36, borrowings disclosed in note 37, cash and cash equivalents disclosed in note 32 and equity attributable to owners of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure periodically. As a part of this review, the corporate finance department reviews the planned construction projects proposed by engineering department and prepares the annual budget taking into account of the provision of funding.

The directors of the Company then assess the annual budget and consider the cost of capital and the risks associated with each class of capital. The directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	4,924,001	505,571	1,456,396
Held-for-trading investments	–	3,000	–
Financial liabilities			
Amortised cost	4,362,204	2,058,888	1,392,139

(b) Financial risk management objectives and policies

The Group's major financial instruments include deposits paid for acquisition of subsidiaries and a property project, trade and other receivables, advance to an associate, amount due from related parties, restricted bank deposits, bank balances and cash, trade and other payables, amounts due to directors and related parties, loans from shareholders and borrowings. Details of these financial instruments are disclosed in respective notes.

The management monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including currency risk and interest rate risk), credit risk and liquidity risk. 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) Foreign currency risk management

The Group has bank balances and borrowings which are denominated in foreign currencies of the relevant group entities, hence expose to exchange rate fluctuations.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective reporting periods are as follow:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Assets			
United States Dollars ("USD")	1,413	1,125	968,315
Hong Kong Dollars ("HKD").	1,868,114	3,616	2,651
Liabilities			
USD	682,820	683,460	730,460
HKD	–	–	32,761

The Group currently does not enter into any derivative contracts to minimise the currency risk exposure. However, the management will consider hedging significant currency risk should the need arise.

The Group mainly exposes to the effects of fluctuation in USD and HKD against RMB.

The following table details the Group's sensitivity to a 5% (2008 and 2007: 5%) increase and decrease in the RMB against the relevant foreign currencies. 5% is the sensitivity rate used in management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2008 and 2007: 5%) change in foreign currency rates. The sensitivity analysis includes bank balances, loans from shareholders and borrowings. A positive number indicates an increase in post-tax profit for the year where the RMB strengthens against the relevant currencies. For a 5% (2008 and 2007: 5%) weakening of the RMB against the relevant currencies, there would be an equal and opposite impact on the profit for the year.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
USD			
Increase (decrease) in profit for the year	<u>34,070</u>	<u>34,117</u>	<u>(11,893)</u>
HKD			
(Decrease) increase in profit for the year	<u>(93,406)</u>	<u>(181)</u>	<u>1,506</u>

In management's opinion, the sensitivity analysis is unrepresentative of the interest foreign exchange risk as the year end exposure does not reflect the exposure during the year. USD denominated borrowings and HKD denominated bank balances are incurred in the last quarter of the year ended 31 December 2009, which results in an increment in the respective balances at 31 December 2009.

(d) 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 balances and variable-rate borrowings.

The Group is also exposed to fair value interest rate risk which relates primarily to its balance with a related party, loans from shareholders and fixed-rate borrowings (see notes 35, 36 and 37). The Group currently does not use any derivative contracts to hedge its loans 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. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the London Interbank Offered Rate ("LIBOR") arising from the Group's USD borrowings and Benchmark Borrowing Rate of The People's Bank of China ("Benchmark Rate") from the Group's RMB borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the above-mentioned non-derivative instruments at the end of the reporting period. A 50 basis points (2008 and 2007: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been higher/lower by 50 basis points (2008 and 2007: 50 basis points) and all other variables were held constant, the Group's profit for the year would increase/decrease by approximately RMB6,666,000 and RMB5,481,000 for the years ended 31 December 2007 and 2009, respectively, while profit for the year ended 31 December 2008 would decrease/increase by approximately RMB1,755,000.

(e) Other price risks

The Group is exposed to equity price risk through its investments in listed mutual funds whose investments as at 31 December 2008 comprised a portfolio of equity instruments issued by entities operating in manufacturing industry sector quoted in the Shenzhen Stock Exchange.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at 31 December 2008.

If the prices of the mutual funds had been 5% higher/lower, the Group's profit for the year ended 31 December 2008 would increase/decrease by approximately RMB150,000.

(f) Credit risk management

As at 31 December 2009, 2008 and 2007, 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 provided 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 in relation to financial guarantee issued by the Group as disclosed in note 45.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties and customers.

The Group has concentration of credit risk on the advance to an associate which was due from Dongguan Zuoting Youyuan Industry Investment Company Limited ("Dongguan Zuoting Youyuan") and the deposits for acquisition of subsidiaries and property project paid to third parties, which all engaged in PRC property development business.

The Group's credit risk on liquid funds is limited because the counterparties are banks with high credit ratings and good reputation established in the PRC and Hong Kong. The Group's credit risk on deposits paid on acquisition of subsidiaries and property project is not significant as the counterparties are enterprises with good reputation established in PRC.

For properties under development which are subject to pre-sales agreements, 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 total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount of the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the customer's purchase deposit and sell the property to recover any amounts paid by the Group to the bank. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

(g) Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on borrowings and amount due to a related party as a significant source of liquidity after the shares of the Company listed on the SEHK with effect from 25 November 2009. As at 31 December 2007, 2008 and 2009, the Group has total available unutilised overdraft and bank loan facilities of approximately RMB40,000,000, nil and RMB272,000,000, respectively.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the 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 Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity table

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2009								
Non-derivative financial liabilities								
Trade and other payables	-	286,330	407,675	115,171	12,099	-	821,275	821,275
Amounts due to related parties	7.02	2,100	1,162	5,230	101,084	-	109,576	100,859
Borrowings								
- fixed rate	5.36	2,902	5,803	317,991	375,649	-	702,345	650,000
- variable rate	4.57	693,093	41,596	345,719	1,943,231	25,950	3,049,589	2,790,070
Financial guarantee contracts	-	1,626,282	-	-	-	-	1,626,282	-
		<u>2,610,707</u>	<u>456,236</u>	<u>784,111</u>	<u>2,432,063</u>	<u>25,950</u>	<u>6,309,067</u>	<u>4,362,204</u>
As at 31 December 2008								
Non-derivative financial liabilities								
Trade and other payables	-	140,942	187,043	162,866	4,425	-	495,276	495,276
Amounts due to directors	-	54,012	-	-	-	-	54,012	54,012
Amounts due to related parties	-	99,340	-	-	-	-	99,340	99,340
Loans from shareholders	12	-	-	744,971	-	-	744,971	683,460
Borrowings								
- fixed rate	8.96	-	-	36,303	-	-	36,303	35,000
- variable rate	8.36	3,893	10,786	376,441	374,870	38,980	804,970	691,800
Financial guarantee contracts	-	719,325	-	-	-	-	719,325	-
		<u>1,017,512</u>	<u>197,829</u>	<u>1,320,581</u>	<u>379,295</u>	<u>38,980</u>	<u>2,954,197</u>	<u>2,058,888</u>
As at 31 December 2007								
Non-derivative financial liabilities								
Trade and other payables	-	20,227	82,033	150,093	11,105	-	263,458	263,458
Amounts due to directors	-	27,456	-	-	-	-	27,456	27,456
Amounts due to related parties	-	2,892	-	-	-	-	2,892	2,892
Loans from shareholders	12	-	-	-	883,857	-	883,857	730,460
Borrowings								
- fixed rate	7.42	-	-	325,285	54,635	-	379,920	362,300
- variable rate	4.70	32	63	284	1,516	6,792	8,687	5,573
Financial guarantee contracts	-	761,172	-	-	-	-	761,172	-
		<u>811,779</u>	<u>82,096</u>	<u>475,662</u>	<u>951,113</u>	<u>6,792</u>	<u>2,327,442</u>	<u>1,392,139</u>

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.

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.

(h) Fair value

The fair values of financial assets and financial liabilities are determined as follow:

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE AND SEGMENT INFORMATION

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Sales of properties	2,322,037	1,064,604	619,168
Rental income from investment properties	10,806	11,029	10,649
Property agency services	57,775	40,224	97,151
Property operation services	63,900	57,875	41,857
Hotel services	4,155	479	–
Others	–	–	3,232
	<u>2,458,673</u>	<u>1,174,211</u>	<u>772,057</u>

Included in revenue, which is under property development segment, is an amount of RMB107,919,000 (2008 and 2007: nil) in respect of completed properties sold in exchange for the advertising spaces provided by the customers. The prepaid advertising spaces of RMB70,586,000 (2008 and 2007: nil) and RMB33,599,000 (2008 and 2007: nil) are recorded in prepayment under non-current assets and trade and other receivables under current assets, respectively for such arrangement.

Included in revenue from property operation services is an amount of RMB21,043,000 (2008: RMB31,131,000 and 2007: RMB17,576,000) in respect of the installation contract revenue.

The Group has adopted HKFRS 8 Operating Segments to report segment information for the years ended 31 December 2007, 2008 and 2009.

The segment information reported externally was analysed on the basis of their products and services supplied by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by the directors of the Company, the chief operating decision maker, for the purposes of resource allocation and assessment of performance.

Inter-segment revenue are eliminated on consolidation.

The Group has five reportable operating segments as follows:

- Property development — developing and selling of properties in the PRC
- Property investment — leasing of investment properties
- Property agency services — provision of property agency and other related services
- Property operation services — provision of property management and other related services
- Hotel services — provision of hotel management and other related services

Other operations include the provision of tourism and entertainment services, interior design services.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned/loss incurred by each segment without allocation of central administration costs and directors' salaries, interest income, imputed interest income on non-current interest-free advance to an associate, loss on partial disposal of subsidiaries, gain on disposal of associates, exchange difference and loss on disposal of a subsidiary as set out in note 8, share of results of associates, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments, the chief operating decision maker also reviews the segment assets attributable to each operating segment, which comprises assets other than interests in associates, advance to an associate, amounts due from a shareholder and related parties, held-for-trading investments, restricted bank deposits, bank balances and cash and other corporate assets.

The following is an analysis of the Group's revenue, results and other material items by reportable segment under review:

Segment revenues, results, assets and other material items for 31 December 2009:

	Property development	Property investment	Property agency services	Property operation services	Hotel services	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
External revenues	2,322,037	10,806	57,775	63,900	4,155	2,458,673
Inter-segment revenues	951	42	14,135	9,994	–	25,122
Segment result	783,517	43,979	13,654	27,574	(684)	868,040
Segment assets	6,170,342	938,989	12,022	60,533	193,285	7,375,171

Amounts included in the measure of segment profit or loss or segment assets:

Additions to non-current assets (note)	143,337	76,766	962	3,103	184,137	408,305
Gain on fair values changes of investment properties	–	34,476	–	–	–	34,476
Release of prepaid lease payments	845	–	–	–	–	845
Depreciation of property, plant and equipment	4,485	–	2,015	1,240	1,046	8,786
(Gain) loss on disposal of property, plant and equipment	(10)	–	82	–	–	72
Allowance on bad and doubtful debts, net	–	–	83	41	–	124

Inter-segment revenues are charged at prevailing market rate.

Segment revenues, results, assets and other material items for 31 December 2008:

	Property development	Property investment	Property agency services	Property operation services	Hotel services	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
External revenues	1,064,604	11,029	40,224	57,875	479	1,174,211
Inter-segment revenues.	–	–	17,767	5,989	70	23,826
Segment result	296,010	23,765	(9,255)	17,600	(2,656)	325,464
Segment assets	3,901,890	481,310	14,347	36,732	8,026	4,442,305

Amounts included in the measure of segment profit or loss or segment assets:

Additions to non-current assets (note)	5,162	3,233	10,061	4,901	8,386	31,743
Gain on fair values changes of investment properties	–	13,807	–	–	–	13,807
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	–	302	–	–	–	302
Impairment loss recognised in respect of goodwill.	–	–	–	2,305	–	2,305
Release of prepaid lease payments .	113	–	–	–	–	113
Depreciation of property, plant and equipment	4,816	–	2,579	940	495	8,830
Loss on disposal of property, plant and equipment.	–	–	577	–	–	577
Allowance on bad and doubtful debts, net	81	–	1,777	637	–	2,495

Inter-segment revenues are charged at prevailing market rate.

Segment revenues, results, assets and other material items for 31 December 2007:

	Property development	Property investment	Property agency services	Property operation services	Hotel services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
External revenues	619,168	10,649	97,151	41,857	–	3,232	772,057
Inter-segment revenues	–	–	11,341	2,157	–	–	13,498
Segment result	57,687	99,370	18,078	10,453	–	1,075	186,663
Segment assets	2,163,658	463,689	10,401	30,611	–	–	2,668,359

Amounts included in the measure of segment profit or loss or segment assets:

Additions to non-current assets (note)	6,257	31,253	2,640	2,635	–	–	42,785
Gain on fair values changes of investment properties	–	86,875	–	–	–	–	86,875
Recognition of change in fair value of completed properties for sale upon transfer to investment properties	–	2,170	–	–	–	–	2,170
Release of prepaid lease payments	112	–	–	–	–	116	228
Release of premium on prepaid lease payments	–	–	–	–	–	617	617
Depreciation of property, plant and equipment	4,005	–	2,753	469	–	696	7,923
Loss on disposal of property, plant and equipment	4	–	3	–	–	–	7
Allowance on (recovery of) bad and doubtful debts, net	1,158	–	4	(3)	–	–	1,159

Inter-segment revenues are charged at prevailing market rate.

Note: Non-current assets excluded interests in associates, advance to an associate, prepayment, deposits paid for acquisition of subsidiaries, deposits paid for acquisition of a property project and deferred tax assets.

Reconciliation:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Revenue:			
Total revenue for reportable segments	2,483,795	1,198,037	782,323
Elimination of inter-segment revenues	(25,122)	(23,826)	(13,498)
Others	–	–	3,232
Group's total revenues	<u>2,458,673</u>	<u>1,174,211</u>	<u>772,057</u>
Profit or loss:			
Segment result	868,040	325,464	186,663
Elimination of inter-segment result	(1,650)	(2,826)	–
Unallocated amounts:			
Unallocated income	15,387	43,537	2,720
Unallocated corporate expenses	(51,583)	(35,980)	(8,023)
Finance costs	(51,800)	(69,941)	(12,167)
Impairment loss recognised in respect of goodwill	–	(2,305)	–
Loss on disposal of a subsidiary	–	(89)	–
Share of results of associates	(1,899)	(3,789)	(1,548)
Loss on partial disposal of subsidiaries	–	–	(2,458)
Gain on disposal of associates	–	–	1,632
Profit before taxation	<u>776,495</u>	<u>254,071</u>	<u>166,819</u>
Assets:			
Total assets for reportable segments	7,375,171	4,442,305	2,668,359
Unallocated assets:			
Interests in associates	12,941	11,248	6,650
Advance to an associate	72,396	58,240	65,377
Amount due from a shareholder	–	21	8
Amounts due from related parties	–	26,856	10,340
Restricted bank deposits	189,712	37,849	18,032
Bank balances and cash	3,696,488	303,046	1,320,657
Held-for-trading investments	–	3,000	–
Corporate assets	<u>106,778</u>	<u>74,757</u>	<u>119,629</u>
Group's total assets	<u>11,453,486</u>	<u>4,957,322</u>	<u>4,209,052</u>

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Other material items:			
<i>Release of prepaid lease payments</i>			
Reportable segment totals	845	113	112
Unallocated amount	357	36	144
Others	–	–	116
Group's total	<u>1,202</u>	<u>149</u>	<u>372</u>
<i>Depreciation of property, plant and equipment</i>			
Reportable segment totals	8,786	8,830	7,227
Unallocated amount	116	110	143
Others	–	–	696
Group's total	<u>8,902</u>	<u>8,940</u>	<u>8,066</u>
<i>Additions to non-current assets</i>			
Reportable segment totals	408,305	31,743	42,785
Unallocated amount	32	37	528
Group's total	<u>408,337</u>	<u>31,780</u>	<u>43,313</u>
<i>Loss on disposal of property, plant and equipment</i>			
Reportable segment totals	72	577	8
Unallocated amount	–	1,150	–
Group's total	<u>72</u>	<u>1,727</u>	<u>8</u>
<i>Allowance on bad and doubtful debt, net</i>			
Reportable segment totals	124	2,495	1,159
Unallocated amount	101	–	–
Group's total	<u>225</u>	<u>2,495</u>	<u>1,159</u>

The Group's revenue from external customers is derived solely from its operations in the PRC, and non-current assets of the Group are located in the PRC.

During the years ended 31 December 2007, 2008 and 2009, there was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

8. OTHER INCOME, GAINS AND LOSSES

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Interest income	6,038	7,951	2,396
Imputed interest income on non-current interest-free advance to an associate	9,349	–	–
Fair value change on held-for-trading investments. . .	–	–	324
Loss on disposal of partial interest in subsidiaries. . .	–	–	(2,458)
Gain on disposal of associates	–	–	1,632
Forfeiture income on deposits received.	384	1,040	406
Government grant (note)	10,448	14,052	–
Exchange (loss) gain.	(1,334)	35,586	(2,120)
Loss on disposal of a subsidiary (note 40)	–	(89)	–
Others	1,681	494	2,546
	<u>26,566</u>	<u>59,034</u>	<u>2,726</u>

Note: The amount represents the grants received from the relevant PRC government to encourage the development of real estate industry. The subsidies are unconditional and granted on a discretionary basis to the Group during the years ended 31 December 2008 and 2009.

9. FINANCE COSTS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Interest on:			
– borrowings wholly repayable within five years.	111,086	40,787	17,898
– borrowings not wholly repayable within five years	1,485	4,224	234
– amount due to a related party	5,153	–	–
– loans from shareholders	70,904	82,221	2,435
Less: Amount capitalised in properties for sales under development	(131,233)	(57,291)	(8,400)
Amount capitalised in construction in progress.	(5,595)	–	–
	<u>51,800</u>	<u>69,941</u>	<u>12,167</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.42%, 10.14% and 6.65% per annum for the years ended 31 December 2007, 2008 and 2009, respectively, to expenditure on qualifying assets.

10. PROFIT BEFORE TAXATION

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Profit before taxation has been arrived at after charging (crediting):			
Directors' emoluments (note 12)	5,380	4,675	3,206
Other staff costs	101,887	97,251	90,155
Retirement benefit scheme contributions	10,435	10,069	5,834
Total staff costs	<u>117,702</u>	<u>111,995</u>	<u>99,195</u>
Less: Amount capitalised to properties for sales under development	7,131	–	–
	<u>110,571</u>	<u>111,995</u>	<u>99,195</u>
Auditor's remuneration	2,503	237	269
Release of prepaid lease payments	845	149	372
Release of premium on prepaid lease payments	357	–	617
Depreciation of property, plant and equipment	8,902	8,940	8,066
Loss on disposal of property, plant and equipment	72	1,727	7
Allowance on bad and doubtful debts, net.	225	2,495	1,159
Cost of properties recognised as an expense	1,338,646	549,543	418,651
Contract cost recognised as an expense	14,163	17,312	8,706
Rental expenses in respect of rented premises under operating leases	7,065	7,317	7,576
Gross rental income from investment properties	(10,806)	(11,029)	(10,649)
Less: direct operating expenses from investment properties that generated rental income	1,303	1,373	324
	<u>(9,503)</u>	<u>(9,656)</u>	<u>(10,325)</u>

11. INCOME TAX EXPENSE

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Current tax:			
PRC taxes			
EIT	217,833	76,831	50,492
LAT	263,215	104,237	2,585
	<u>481,048</u>	<u>181,068</u>	<u>53,077</u>
Deferred tax (note 25)			
Current year	(69,237)	(23,383)	15,370
Underprovision of deferred tax assets	(4,761)	(1,135)	–
Attributable to change in tax rate	–	–	14,105
	<u>(73,998)</u>	<u>(24,518)</u>	<u>29,475</u>
	<u>407,050</u>	<u>156,550</u>	<u>82,552</u>

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the income of the Group neither arise in nor is derived from Hong Kong.

The Group's PRC enterprise income tax is calculated based on the applicable tax rates on assessable profits, if applicable.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the Enterprise Income tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% and increased from 15% to 25% progressively from 1 January 2008 onwards.

Under the Provisional Regulations on LAT of the PRC promulgated on 27 January 1995, the PRC subsidiaries are also subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including borrowing costs and property development expenditures in relation to the gains arising from transfers of properties in the PRC effective from 1 January 1994.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Profit before taxation	776,495	254,071	166,819
Tax at PRC enterprise income tax rate of 25% (2007: 15%) (note i)	194,124	63,518	25,023
Tax effect of share of results of associates	474	947	232
Tax effect of income not taxable for tax purposes . .	(2,337)	(85)	(2,003)
Tax effect of expenses not deductible for tax purposes (note ii)	35,373	22,831	4,857
Tax effect of tax losses not recognised	6,324	7,219	6,607
Utilisation of tax losses previous not recognised . .	(4,026)	–	(1,705)
Tax effect of different tax rates on subsidiaries . . .	(12,519)	(14,359)	12,591
LAT	263,215	104,237	2,585
Effect of LAT on enterprise income tax	(65,804)	(26,059)	(388)
Underprovision of deferred tax assets	(4,761)	(1,135)	–
Change in opening deferred tax liabilities or deferred tax assets resulting from an increase in applicable tax rate	–	–	14,105
Others	(3,013)	(564)	20,648
Income tax expense for the year	<u>407,050</u>	<u>156,550</u>	<u>82,552</u>

Notes:

- (i) Majority of the PRC subsidiaries of the Group are situated in the Shenzhen and Zhuhai Special Economic Zones for the year ended 31 December 2007 and they were entitled to a preferential EIT rate of 15%. Commencing on 1 January 2008, the majority of the assessable profits of the Group were derived from subsidiaries situated in Chengdu of the PRC and the applicable income tax rate was 25%.
- (ii) The amounts mainly relate to the tax effect of expenses incurred by offshore companies, including the interest on loans from shareholders, legal and professional fees in connection with the listing of the Company's share in the SEHK and impairment loss recognised in respect of goodwill.

12. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments of the directors on a named basis are as follows:

	Fees	Salaries and other benefits	Discretionary bonus	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000 (note)	RMB'000	RMB'000
<i>For the year ended 31 December 2009</i>					
Executive director:					
Pan Jun (潘軍)	–	819	504	21	1,344
Zeng Jie (曾寶寶)	–	1,322	–	19	1,341
Feng Huiming (馮輝明)	–	773	548	21	1,342
Chan Sze Hon (陳思翰)	–	1,057	73	11	1,141
Independent non-executive director:					
He Min (何敏)	53	–	–	–	53
Huang Ming (黃明)	53	–	–	–	53
Liao Changjiang (廖長江)	53	–	–	–	53
Xu Quan (許權)	53	–	–	–	53
	<u>212</u>	<u>3,971</u>	<u>1,125</u>	<u>72</u>	<u>5,380</u>
<i>For the year ended 31 December 2008</i>					
Executive director:					
Pan Jun (潘軍)	–	1,130	94	20	1,244
Zeng Jie (曾寶寶)	–	1,323	–	20	1,343
Feng Huiming (馮輝明)	–	1,093	86	21	1,200
Chan Sze Hon (陳思翰)	–	879	–	9	888
	<u>–</u>	<u>4,425</u>	<u>180</u>	<u>70</u>	<u>4,675</u>
<i>For the year ended 31 December 2007</i>					
Executive director:					
Pan Jun (潘軍)	–	789	270	15	1,074
Zeng Jie (曾寶寶)	–	1,320	–	16	1,336
Feng Huiming (馮輝明)	–	782	–	14	796
	<u>–</u>	<u>2,891</u>	<u>270</u>	<u>45</u>	<u>3,206</u>

Note: The discretionary bonus is determined by the board of directors based on the Group's performance for each financial year.

Employees' emoluments

The five individuals with the highest emoluments in the Group included 3 directors for the years ended 31 December 2009 and 2008 and 2 directors for the year ended 31 December 2007. Details of their emoluments are set out above. The emoluments of the remaining 2 (2008: 2 and 2007: 3) of the five highest paid individuals are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Salaries and allowances	1,395	2,155	1,388
Discretionary bonus	1,102	47	863
Retirement benefit scheme contributions	41	34	47
	<u>2,538</u>	<u>2,236</u>	<u>2,298</u>

Their emoluments were within the following band:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Below HK\$1,000,000	–	–	3
HK\$1,000,000 to HK\$1,500,000	2	2	–
	<u>2</u>	<u>2</u>	<u>–</u>

During the years ended 31 December 2007, 2008 and 2009, no remuneration was paid by the Group to any of the directors 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 waived any remuneration for the years ended 31 December 2007, 2008 and 2009.

13. DIVIDENDS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Dividends paid (note)	1,267	1,036	1,054
	<u>1,267</u>	<u>1,036</u>	<u>1,054</u>

Note: The amount represents dividends paid by the PRC subsidiaries to their then minority shareholders.

A final dividend of HK1.75 cents in respect of the year ended 31 December 2009 (2008 and 2007: nil) per share has been proposed by the directors and is subject to approval by the shareholders in forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Earnings			
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company).	<u>373,469</u>	<u>84,259</u>	<u>68,797</u>
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings per share . .	<u>3,768,544,897</u>	<u>3,645,000,000</u>	<u>3,645,000,000</u>

No diluted earnings per share is presented as the Company did not have any potential ordinary shares in issue during the three years ended 31 December 2009 or at the end of the reporting period.

For the year ended 31 December 2009, the weighted average number of ordinary shares reflect the weighted average effect of the 100,000 shares in issue before the capitalisation issue, 3,644,900,000 shares issued pursuant to the capitalisation issue as more fully described in note 38(5) and 1,228,888,750 shares issued in the global offering.

For the years ended 31 December 2008 and 2007, the weighted average number of ordinary shares has been adjusted to reflect the capitalisation issue as more fully described in note 38(5).

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (note)	RMB'000
COST						
At 1 January 2007	27,473	8,372	14,462	8,232	–	58,539
Acquisition of assets and liabilities through acquisition of subsidiaries (note 39(a))	–	782	16	–	–	798
Additions	–	1,860	7,628	1,774	–	11,262
Disposals	–	–	(268)	–	–	(268)
Disposal of subsidiaries (note 40)	(9,648)	–	(2,945)	(264)	–	(12,857)
At 31 December 2007 and 1 January 2008	17,825	11,014	18,893	9,742	–	57,474
Acquisition of business (note 39(b))	–	–	45	5	–	50
Additions	8,142	10,436	6,837	777	–	26,192
Disposals	(2,357)	(392)	(1,462)	(213)	–	(4,424)
At 31 December 2008 and 1 January 2009	23,610	21,058	24,313	10,311	–	79,292
Transfer from properties for sales under development	–	–	–	–	66,999	66,999
Additions	636	150	2,667	1,009	51,306	55,768
Disposals	–	(57)	(2,381)	(571)	–	(3,009)
At 31 December 2009	24,246	21,151	24,599	10,749	118,305	199,050
DEPRECIATION						
At 1 January 2007	2,955	3,710	5,208	3,149	–	15,022
Provided for the year	1,309	2,665	2,817	1,275	–	8,066
Eliminated on disposals	–	–	(164)	–	–	(164)
Disposal of subsidiaries (note 40)	(1,154)	–	(370)	(107)	–	(1,631)
At 31 December 2007 and 1 January 2008	3,110	6,375	7,491	4,317	–	21,293
Provided for year	770	3,092	3,594	1,484	–	8,940
Eliminated on disposal	(240)	(99)	(950)	(156)	–	(1,445)
At 31 December 2008 and 1 January 2009	3,640	9,368	10,135	5,645	–	28,788
Provided for the year	1,159	2,400	3,801	1,542	–	8,902
Eliminated on disposals	–	(30)	(1,750)	(390)	–	(2,170)
At 31 December 2009	4,799	11,738	12,186	6,797	–	35,520
CARRYING AMOUNTS						
At 31 December 2009	19,447	9,413	12,413	3,952	118,305	163,530
At 31 December 2008	19,970	11,690	14,178	4,666	–	50,504
At 31 December 2007	14,715	4,639	11,402	5,425	–	36,181

Note: During the year ended 31 December 2009, RMB66,999,000 (2008 and 2007: nil) was transferred from properties for sales under development as a result of change in intended use to operate hotel business.

The following useful lives are used in the calculation of depreciation:

Buildings	Over the shorter of the term of lease or 50 years
Leasehold improvements	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 to 10 years

At 31 December 2007, 2008 and 2009, certain of the Group's buildings with aggregate carrying amounts of RMB14,466,000, RMB11,860,000, RMB11,122,000 and construction in progress with aggregate carrying amounts of nil, nil and RMB80,273,000, respectively, were pledged to banks to secure certain banking facilities granted to the Group.

16. INVESTMENT PROPERTIES

	<u>Completed</u>	<u>Under development</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
FAIR VALUE			
At 1 January 2007	340,911	–	340,911
Additions	–	27,353	27,353
Transfer from completed properties for sales	3,900	–	3,900
Net change in fair value recognised in profit or loss	86,875	–	86,875
At 31 December 2007 and 1 January 2008	431,686	27,353	459,039
Additions	–	2,521	2,521
Transfer from completed properties for sales	712	–	712
Net change in fair value recognised in profit or loss	(24,739)	38,546	13,807
Transfers upon completion of construction work	68,420	(68,420)	–
At 31 December 2008 and 1 January 2009	476,079	–	476,079
Additions	–	76,766	76,766
Disposals	(5,953)	–	(5,953)
Net change in fair value recognised in profit or loss	26,870	7,606	34,476
At 31 December 2009	496,996	84,372	581,368

The fair values of the Group's completed investment properties of approximately RMB496,996,000 (2008: RMB476,079,000 and 2007: RMB431,686,000) and under development of approximately RMB26,602,000 (2008 and 2007: nil) at the end of the reporting period were arrived at on the basis of a valuation carried out by Jones Lang LaSalle Sallmanns Limited. Jones Lang LaSalle Sallmanns Limited is a firm of independent qualified professional valuers not connected with the Group, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuations were arrived at by reference to net rental income allowing for reversionary income potential and market evidence of transaction prices for similar properties in the same locations and conditions, where appropriate.

The Group has concluded the fair value of the remaining investment properties under development of RMB57,770,000 (2008: nil and 2007: RMB27,353,000) cannot be measured reasonably, therefore, the Group's investment properties under development continued to be measured at cost until such time as fair value can be determined or construction is completed.

At 31 December 2007, 2008 and 2009, investment properties with fair value of RMB81,000,000, RMB158,908,000 and RMB164,470,000, respectively, represent completed car parks which can be legally transferred, leased and mortgaged but the title certificates cannot be currently applied as there was no special provisions to obtain any title certificates, according to the relevant laws and regulations in Shenzhen and Chengdu areas.

At 31 December 2007, 2008 and 2009, certain of the Group's investment properties with an aggregate fair value of approximately RMB304,100,000, RMB281,850,000 and RMB301,535,000, respectively, were pledged to banks to secure the banking facilities granted to the Group.

The investment properties are held under medium-term lease in the PRC.

17. INTERESTS IN ASSOCIATES

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Cost of investment, unlisted	6,750	6,750	3,750
Share of post-acquisition results	(6,750)	(4,851)	(1,062)
Deemed capital contributions.	12,941	9,349	3,962
	<u>12,941</u>	<u>11,248</u>	<u>6,650</u>

Included in interests in associates are fair value adjustments of RMB3,962,000, RMB9,349,000 and RMB12,941,000 as at 31 December 2007, 2008 and 2009, respectively, on interest-free non-current advance to an associate. For details, please refer to note 18.

As at 31 December 2007, 2008 and 2009, the Group had interests in the following associates:

<u>Name of associate</u>	<u>Registered capital</u>	<u>Equity interest attributable to the Group as at 31 December</u>			<u>Principal activities</u>
		2009	2008	2007	
東莞市歐普泰建築技術有限公司 Dongguan Ouputai Architecture Technology Company Limited	RMB3,000,000	30%	30%	30%	Property consulting
東莞市左庭右院實業投資有限公司 Dongguan Zuoting Youyuan Industry Investment Company Limited ("Dongguan Zuoting Youyuan") . . .	RMB18,000,000	37.5%	37.5%	37.5%	Property development

The summarised financial information in respect of the Group's associates is set out below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Total assets	266,577	223,032	258,190
Total liabilities	270,695	219,349	252,402
Net (liabilities) assets	<u>(4,118)</u>	<u>3,683</u>	<u>5,788</u>
Group's share of net assets of associates	<u>–</u>	<u>1,382</u>	<u>2,171</u>
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Revenue	<u>–</u>	<u>–</u>	<u>124</u>
Loss and total comprehensive expense for the year	<u>(7,802)</u>	<u>(10,104)</u>	<u>(4,506)</u>
Group's share of results of associates (note)	<u>(1,899)</u>	<u>(3,789)</u>	<u>(1,548)</u>

Note: During the year ended 31 December 2009, the unrecognised share of loss of associates was approximately RMB1,027,000 (2008 and 2007: nil). In the opinion of directors, there are no significant unrecognised share of capital commitment and contingent liabilities at the end of the respective reporting periods.

18. ADVANCE TO AN ASSOCIATE

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Dongguan Zuoting Youyuan	<u>72,396</u>	<u>58,240</u>	<u>65,377</u>

The amount represents the advance to an associate which are non-trade nature and will not be recoverable within one year from the end of respective reporting periods and therefore considered as a non-current asset. The amount is unsecured and measured at amortised cost using the effective interest method at the borrowing rate of 6.50%, 8.66% and 4.96% per annum for the years ended 31 December 2007, 2008 and 2009, respectively.

19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Leasehold land in Hong Kong under long lease	–	–	7,522
Leasehold land in the PRC under medium-term lease	<u>169,161</u>	<u>1,673</u>	<u>1,786</u>
	<u>169,161</u>	<u>1,673</u>	<u>9,308</u>
Analysed for reporting purposes as:			
Current asset	4,704	112	256
Non-current asset	<u>164,457</u>	<u>1,561</u>	<u>9,052</u>
	<u>169,161</u>	<u>1,673</u>	<u>9,308</u>

During the year ended 31 December 2007, the Group disposed of its 90% equity interest in Huidong Dayawan San Jiao Zhou Recreation Company Limited (“San Jiao Zhou”) to Shenzhen Xi Fu Hui Club Management Company Limited (“Xi Fu Hui”), a company in which Ms. Zeng Jie and Mr. Pan Jun have beneficial interests. The assets of San Jiao Zhou included the prepaid lease payment of approximately RMB5,415,000.

During the year ended 31 December 2008, the Group disposed of the prepaid lease payment amounting to approximately RMB7,486,000 to Ms. Zeng Jie, a director of the Company.

During the year ended 31 December 2008, Pujiang Daxigu Ecological Tourism Development Company Limited (“Pujiang Daxigu”), a subsidiary of the Company, acquired prepaid lease payments of approximately RMB15,139,000. On 28 February 2008, the Group disposed of its equity interest in Pujiang Daxigu to Shenzhen Tiankuo Investment Company Limited (“Shenzhen Tiankuo”), a company in which Ms. Zeng Jie and Mr. Pan Jun have beneficial interests. The assets of Pujiang Daxigu included the prepaid lease payment of approximately RMB15,139,000.

During the year ended 31 December 2009, the Group acquired prepaid lease payment of approximately RMB100,512,000 through the acquisition of a subsidiary as disclosed in note 39(a).

During the year ended 31 December 2009, prepaid lease payments of approximately RMB68,653,000 were transferred from property for sales as a result of change in intended use to operate hotel business. Amortisation charge of RMB832,000 provided for the leasehold land is capitalised into construction in progress. The capitalisation of amortisation charge will cease when the assets are ready for their intended use. No such transfer was made during the years ended 31 December 2007 and 2008.

At 31 December 2007, 2008 and 2009, certain of the Group’s prepaid lease payments with a carrying amount of approximately RMB9,308,000 RMB1,673,000 and RMB67,643,000, respectively, were pledged to banks to secure the banking facilities granted to the Group.

20. PREMIUM ON PREPAID LEASE PAYMENTS

Premium on prepaid lease payments of the Group represent the excess of the fair value over the principal amount of the prepaid lease payments in respect of a leasehold land in the PRC under medium-term lease acquired through purchase of subsidiaries and are amortised over the period of the remaining lease term on a straight-line basis.

	<u>RMB'000</u>			
COST				
At 1 January 2007	27,127			
Disposal of a subsidiary (note 40)	<u>(27,127)</u>			
At 31 December 2007, 1 January 2008, 31 December 2008 and 1 January 2009 . . .	–			
Acquisition of asset and liabilities through acquisition of a subsidiary (note 39(a)) . . .	<u>47,579</u>			
At 31 December 2009	<u>47,579</u>			
AMORTISATION				
At 1 January 2007	822			
Amortised from 1 January 2007 to 21 September 2007 (date of disposal of a subsidiary)	617			
Disposal of a subsidiary (note 40)	<u>(1,439)</u>			
At 31 December 2007, 1 January 2008, 31 December 2008 and 1 January 2009 . . .	–			
Amortised for the year	<u>357</u>			
At 31 December 2009	<u>357</u>			
CARRYING AMOUNTS				
At 31 December 2009	<u>47,222</u>			
At 31 December 2008	<u>–</u>			
At 31 December 2007	<u>–</u>			
		2009	2008	2007
		<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Analysed for reporting purposes as:				
Current asset	1,428	–	–	
Non-current asset	<u>45,794</u>	<u>–</u>	<u>–</u>	
	<u>47,222</u>	<u>–</u>	<u>–</u>	

21. DEPOSITS PAID FOR ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2009, the Group has made deposits of approximately RMB423,000,000 (2008 and 2007: nil) in relation to the acquisition of Suzhou Huawanli Real Estate Company Limited 蘇州市花萬里房地產開發有限公司 (“Suzhou Huawanli”) and Suzhou LKN Real Estate Company Limited 蘇州林甲岩房產發展有限公司 (“Suzhou LKN”) from independent third parties. The aforesaid companies are principally engaged in the PRC property development. At the date these consolidated financial statements were authorised for issuance, the acquisition has been completed. Details are disclosed in note 48.

22. DEPOSITS PAID FOR ACQUISITION OF A PROPERTY PROJECT

During the year ended 31 December 2009, the Group has made deposits of approximately RMB704,112,000 (2008 and 2007: nil) in relation to the acquisition of a property project from an independent property developer. Included in the deposits, the amount of approximately RMB352,056,000 relates to investment properties under development and therefore classified as non-current assets. The remaining amount of approximately RMB352,056,000 relates to properties under development for future sales and therefore included in trade and other receivables and classified as current assets. The acquisition was subsequently completed in January 2010.

23. GOODWILL

	<u>RMB'000</u>
COST	
At 1 January 2007, 31 December 2007 and 1 January 2008	22,515
Arising on acquisition of business (note 39(b))	<u>2,305</u>
At 31 December 2008, 1 January 2009 and 31 December 2009	<u>24,820</u>
IMPAIRMENT	
At 1 January 2007, 31 December 2007 and 1 January 2008	22,515
Impairment loss recognised for the year.	<u>2,305</u>
At 31 December 2008, 1 January 2009 and 31 December 2009	<u>24,820</u>
CARRYING AMOUNTS	
At 31 December 2009.	<u><u>–</u></u>
At 31 December 2008.	<u><u>–</u></u>
At 31 December 2007.	<u><u>–</u></u>

During the year ended 31 December 2008, the Group acquired 70% equity interest in Shenzhen Liantang Property Management Company Limited (“Shenzhen Liantang”) from an independent third parties, of which the goodwill amounted to approximately RMB2,305,000. The Group acquired the above interests for the purpose of expansion of property operation services business.

Goodwill acquired in a business combination allocated, at acquisition, to the cash generating units (“CGUs”) that are expected to benefit from that business combination.

24. IMPAIRMENT TESTING ON GOODWILL

During the year ended 31 December 2008, the Group recognised an impairment loss of RMB2,305,000 in relation to goodwill arising on acquisition of Shenzhen Liantang. For the purposes of impairment testing, goodwill set out in note 23 has been allocated to one individual CGU, which is engaged in provision of property management services. The carrying amount of goodwill (net of accumulated impairment losses) as at 31 December 2009 and 2008 allocated to this CGU is nil.

25. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements during the current and prior year is as follows:

	Fair value adjustment of investment properties	Temporary difference on accruals	Revaluation of properties arising from business combination	Tax losses	Other (note)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	24,939	(7,636)	16,108	–	(4,878)	28,533
Charge (credit) to profit or loss . . .	22,261	4,280	(78)	(14,560)	3,467	15,370
Disposal of subsidiaries (note 40) . .	–	–	(16,030)	–	–	(16,030)
Effect of change in tax rate	16,626	(966)	–	–	(1,555)	14,105
At 31 December 2007 and 1 January 2008	63,826	(4,322)	–	(14,560)	(2,966)	41,978
Charge (credit) to profit or loss . . .	3,527	130	–	(8,336)	(18,704)	(23,383)
Underprovision of deferred tax assets	–	(315)	–	(6)	(814)	(1,135)
At 31 December 2008 and 1 January 2009	67,353	(4,507)	–	(22,902)	(22,484)	17,460
Charge (credit) to profit or loss . . .	10,556	(2,427)	–	(22,870)	(54,496)	(69,237)
Underprovision of deferred tax assets	–	–	–	(1,977)	(2,784)	(4,761)
At 31 December 2009	77,909	(6,934)	–	(47,749)	(79,764)	(56,538)

Note: Others mainly represents the deductible temporary difference arising from LAT provision.

For the purpose of presentation in the consolidated statement of financial position, certain deferred taxation assets and liabilities has been offset. The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2009	2008	2007
	RMB'000	RMB'000	RMB'000
Deferred tax assets	(88,818)	(41,531)	(14,560)
Deferred tax liabilities	32,280	58,991	56,538
	(56,538)	17,460	41,978

At 31 December 2007, 2008 and 2009, the Group had unutilised tax losses of approximately RMB140,283,000, RMB208,385,000 and RMB306,595,000, respectively. A deferred tax asset has been recognised in respect of approximately RMB58,240,000, RMB96,016,000 and RMB198,930,000, respectively, of such tax losses. At 31 December 2007, 2008 and 2009, no deferred tax asset has been recognised in respect of the remaining tax losses of RMB82,043,000, RMB112,369,000 and

RMB107,665,000, respectively, due to the unpredictability of future profits streams. Pursuant to the relevant laws and regulations in the PRC, the unrecognised tax losses at the end of the reporting period will expire in the following years:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
2008	–	–	557
2009	–	4,513	4,513
2010	7,640	14,279	14,279
2011	2,683	6,407	6,407
2012	40,113	51,606	51,606
2013	22,162	26,465	–
2014	20,145	–	–
No expiry	14,922	9,099	4,681
	<u>107,665</u>	<u>112,369</u>	<u>82,043</u>

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, for which deferred tax liabilities have not been recognised, was nil, approximately RMB272,504,000 and RMB721,481,000 at 31 December 2007, 2008 and 2009, respectively. No liability has been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future.

26. PROPERTIES FOR SALES

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Completed properties for sales.	319,132	432,142	14,519
Under development.	4,257,804	3,337,699	2,013,334
	<u>4,576,936</u>	<u>3,769,841</u>	<u>2,027,853</u>

At 31 December 2007, 2008 and 2009, certain of the Group's properties for sales with a carrying amount of RMB252,003,000, RMB818,751,000 and RMB2,522,991,000, respectively, were pledged to secure certain banking facilities granted to the Group.

At 31 December 2007, 2008 and 2009, the Group was in the process of obtaining the land use right certificates for certain properties with an aggregate carrying amount of approximately RMB316,095,000, RMB90,956,000 and nil, respectively.

At 31 December 2007, 2008 and 2009, prepaid lease payment with an aggregate carrying amount of approximately RMB613,080,000, RMB2,412,936,000 and RMB1,945,522,000, respectively, were held for the purpose of property development for sale and included in the carrying amounts of properties for sales.

During the year ended 31 December 2007, 2008 and 2009, completed properties for sales with an aggregate carrying amount of approximately RMB1,730,000, RMB410,000 and nil, respectively, were transferred to investment properties upon the signing of relevant tenancy agreements. The excess of the fair value of these properties at the date of transfer over their carrying amount, amounting to approximately RMB2,170,000 RMB302,000 and nil were recognised in the consolidated statements of comprehensive income for the years ended 31 December 2007, 2008 and 2009, respectively.

During the year ended 31 December 2009, RMB66,999,000 and RMB68,653,000 were transferred to construction in progress under property, plant and equipment and prepaid lease payments, respectively, as a result of change in intended use to operate hotel business, and no such transfer were made in the years ended 31 December 2007 and 2008.

Included in the amount are properties under development for sales of approximately RMB1,415,086,000, RMB1,601,632,000 and RMB2,060,976,000 in relation to property development projects that are expected to complete after one year from the end of respective reporting periods as at 31 December 2007, 2008 and 2009.

27. TRADE AND OTHER RECEIVABLES

Trade receivables are mainly arisen from sales of properties, rental income derived from investment properties, agency fee income in respect of property rentals, service and management income in respect of property management.

Considerations in respect of properties sold are received in accordance with the terms of the related sales and purchase agreements, normally within 30 days from date of the sales and purchase agreements.

Rental income from investment properties is received in accordance with the terms of the relevant lease agreements, normally within 30 days from the issuance of invoices.

Management and service fee income is received in accordance with the terms of the relevant property service agreements, normally within 30 — 90 days from the issuance of invoices.

Hotel operation income is in the form of cash sales.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Trade receivables	105,301	45,085	16,773
Other receivables	85,048	34,474	25,209
Deposits for the auction in respect of the sale of land (note i)	143,000	—	—
Deposits for the acquisition of properties for sales (note 22).	352,056	—	—
Prepayments and other deposits	99,591	8,553	74,718
Prepayments for construction materials	143,433	289	1,672
Deposits for the acquisition of land use right	—	19,432	58,000
Other tax prepayment (note ii).	59,532	37,906	37,203
	<u>987,961</u>	<u>145,739</u>	<u>213,575</u>

Notes:

- (i) The amount represents the deposits paid for the auction in respect of the acquisition of land in Shanghai. Subsequent to 31 December 2009, the Group has not won the auction and the relevant deposits have been refunded to the Group in January 2010.
- (ii) During the years ended 31 December 2007, 2008 and 2009, the Group is required to prepay business tax amounting to approximately RMB56,053,000, RMB38,377,000 and RMB116,381,000, respectively, in accordance with the relevant PRC tax rules in respect of its pre-sale of property development projects. As at 31 December 2007, 2008 and 2009, amount of approximately RMB33,821,000, RMB35,224,000 and RMB57,948,000, respectively, has been prepaid and included in other tax prepayment.

The following is an aged analysis of trade receivables of the Group net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
0 to 30 days	86,481	14,189	10,207
31 to 90 days	10,634	28,876	4,158
91 to 180 days	4,082	1,740	1,170
181 to 365 days	1,465	260	484
Over 1 year	2,639	20	754
	<u>105,301</u>	<u>45,085</u>	<u>16,773</u>

For property investment and property operating services, before accepting any new customer, the Group would assess the potential customer's credit quality and defined credit rating limits of each customers. Limits attributed to customers are reviewed once a year.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and no impairment is necessary for those balances which are not past due.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB2,951,000, RMB2,789,000 and RMB13,199,000 at 31 December 2007, 2008 and 2009, respectively, which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 to 90 days	5,031	769	543
91 to 180 days	4,064	1,740	1,170
181 to 365 days	1,465	260	484
Over 1 year	2,639	20	754
	<u>13,199</u>	<u>2,789</u>	<u>2,951</u>

Movement in the allowance for doubtful debts in respect of trade and other receivables

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Balance at beginning of the year	2,513	5,651	4,492
Impairment losses reversed	(223)	(144)	(411)
Impairment losses written off	(1,218)	(5,633)	–
Impairment losses recognised	448	2,639	1,570
Balance at end of the year	<u>1,520</u>	<u>2,513</u>	<u>5,651</u>

As at 31 December 2007, 2008 and 2009, included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of RMB5,651,000, RMB2,513,000 and RMB1,520,000 of which the debtors have been in dispute with the Group, respectively.

28. AMOUNT DUE FROM A SHAREHOLDER

The amount was unsecured, interest-free and was repayable on demand as at 31 December 2007 and 2008.

29. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

	2009	2008	2007
	RMB'000	RMB'000	RMB'000
Contract costs incurred plus recognised profits			
less recognised losses	32,173	30,678	14,186
Less: Progress billings	(28,365)	(29,329)	(8,045)
	<u>3,808</u>	<u>1,349</u>	<u>6,141</u>

No retentions held by customers for contract works for installation contracts was included in amounts due from customers for contract works.

No advance had been received during the years ended 31 December 2007, 2008 and 2009.

30. AMOUNTS DUE FROM RELATED PARTIES

	2009	2008	2007	Maximum balance outstanding during the year		
				2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
深圳天闊投資有限公司 Shenzhen Tiankuo (note a)	-	-	-	-	-	79,319
深圳喜福會會所管理 有限公司 Xi Fu Hui (note a)	-	9,550	9,548	9,550	9,550	9,550
Ice Apex Limited (note a)	-	12	-	12	12	-
Graceful Star Overseas Limited (note a)	-	12	-	12	12	-
Palace Place Limited (note a)	-	13	-	13	13	-
Pujiang Daxigu (note a) . . .	-	16,669	-	16,669	16,669	-
Tang Xue Bin 唐學斌 (note b)	-	-	64	-	64	64
Lu Ying 路瑩 (note c)	-	600	678	600	678	678
Jin Jiang Lin 金江林 (note d)	-	-	50	-	50	50
天津松江集團有限公司 Tianjin Songjiang Group Company Limited “Songjiang Group” (note e)	-	-	-	-	12,000	-
	<u>-</u>	<u>26,856</u>	<u>10,340</u>	<u>-</u>	<u>12,000</u>	<u>-</u>

Notes:

- (a) Entities where the directors of the Company, Ms. Zeng Jie and Mr. Pan Jun, have controlling and beneficial interests.
- (b) Tang Xue Bin is a director of a subsidiary of the Company.
- (c) Lu Ying is the minority shareholder of a subsidiary of the Company.
- (d) Jing Jiang Lin is a director of a subsidiary of the Company.
- (e) Songjiang Group held 40% equity interests in a subsidiary of the Company.

The amounts represented the advances to related parties which were non-trade nature.

The amounts were interest-free, unsecured and were fully settled in 2009.

31. HELD-FOR-TRADING INVESTMENTS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Mutual funds listed in the PRC	—	3,000	—

The fair values of the held-for-trading investments were determined based on quoted market prices at 31 December 2008.

32. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Restricted bank deposits

The deposits carry interest rates ranging from 0.36% to 0.72% per annum (2008 and 2007: 0.72% to 0.94% per annum). The restricted bank deposits will be released upon the buyers obtaining the individual property ownership certificate.

Bank balances and cash

The bank balances carry variable interest rates ranging from 0.36% to 0.76% per annum (2008 and 2007: 0.76% to 0.78% per annum).

At 31 December 2007, 2008 and 2009, bank balances of the Group denominated in USD, foreign currency of the relevant group entities, are approximately RMB968,315,000, RMB1,125,000 and RMB1,413,000, respectively.

At 31 December 2007, 2008 and 2009, bank balances of the Group denominated in HKD, foreign currency of the relevant group entities, are approximately RMB2,648,000, RMB3,616,000 and RMB1,868,114,000, respectively.

33. TRADE AND OTHER PAYABLES

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables	652,710	325,534	173,291
Other payables	111,253	139,096	58,879
Other tax payables	34,906	21,218	24,295
Payroll payable	26,503	17,001	16,424
Welfare payable	2,813	2,817	2,927
Retention payable	27,996	10,828	11,937
Accruals	17,616	49,622	49,504
	<u>873,797</u>	<u>566,116</u>	<u>337,257</u>

Trade payables principally comprise amounts outstanding for purchase of materials for the construction of properties for sales, investment properties and hotels and ongoing expenditures. The average credit period for purchase of construction materials ranged from 6 months to 1 year.

The following is an aged analysis of the Group's trade payables and retention payable presented based on the invoice date at the end of the reporting periods:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
0 to 60 days	536,031	313,334	171,519
61 to 180 days	50,392	5,827	1,531
181 to 365 days	66,287	6,373	241
1 – 2 years	26,283	715	10,453
2 – 3 years	275	9,865	–
Over 3 years	1,438	248	1,484
	<u>680,706</u>	<u>336,362</u>	<u>185,228</u>

The balances of approximately RMB11,937,000, RMB10,828,000 and RMB27,996,000 as at 31 December 2007, 2008 and 2009, respectively, with age over 1 year represent the retention money of approximately 5% to 10% of the construction contract price.

34. AMOUNTS DUE TO DIRECTORS

At 31 December 2007, 2008 and 2009, the carrying amounts denominated in HKD, foreign currency of the relevant group entities, are approximately RMB26,200,000, nil and nil, respectively.

The amounts were interest-free, unsecured and were fully settled in 2009.

35. AMOUNTS DUE TO RELATED PARTIES

	2009	2008	2007
	RMB'000	RMB'000	RMB'000
San Jiao Zhou (note a)	–	–	782
Jing Liu 敬柳 (note b)	–	–	2,110
Songjiang Group (note c)	100,859	99,340	–
	<u>100,859</u>	<u>99,340</u>	<u>2,892</u>
Analysed for reporting purposes as:			
Current liabilities	1,519	99,340	2,892
Non-current liabilities	99,340	–	–
	<u>100,859</u>	<u>99,340</u>	<u>2,892</u>

Notes:

- (a) The directors of the Company, Ms. Zeng Jie and Mr. Pan Jun, have controlling and beneficial interest in San Jiao Zhou during the years ended 31 December 2007, 2008 and 2009.
- (b) Jing Liu is the shareholder of Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd., a subsidiary of the Group, during the years ended 31 December 2007, 2008 and 2009.
- (c) Pursuant to the agreement entered into between the Group and Songjiang Group in April 2009, the full amount with Songjiang Group has changed to interest bearing which carried fixed interest rate at 7.02% per annum with effect from 10 April 2009 and is fully repayable on 9 April 2011, accordingly, this amount has been reclassified from current liability as at 31 December 2008 to non-current liability as at 31 December 2009.

The balances represent the advances from related parties which are non-trade nature.

36. LOANS FROM SHAREHOLDERS

	2009	2008	2007
	RMB'000	RMB'000	RMB'000
Fantasia (Cayman) Limited	–	512,595	547,845
Wellluck Properties Limited	–	170,865	182,615
	<u>–</u>	<u>683,460</u>	<u>730,460</u>
Shown as current liabilities	–	638,460	–
Shown as non-current liabilities	–	–	730,460
	<u>–</u>	<u>638,460</u>	<u>730,460</u>

The amounts were denominated in USD, foreign currency of the group entity.

The Group borrowed USD100,000,000 (equivalent to RMB730,460,000) on 21 December 2007 which carried fixed interest rate at 12% per annum.

The Group had pledged all shares, interests, participations or other equivalents in equity, registered capital or other ownership interest of certain subsidiaries of the Group to secure the shareholders' loans granted to the Group.

The balances were fully settled in 2009 and the respective pledges had been released.

37. BORROWINGS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Bank loans	2,994,070	726,800	367,873
Other loans	446,000	–	–
	<u>3,440,070</u>	<u>726,800</u>	<u>367,873</u>
Secured	3,044,070	460,550	277,873
Unsecured	396,000	266,250	90,000
	<u>3,440,070</u>	<u>726,800</u>	<u>367,873</u>
The amount is repayable as follows:			
Within one year	1,266,320	373,050	317,943
More than one year, but not exceeding two years . .	1,422,000	37,000	286
More than two years, but not exceeding five years	726,750	279,750	45,074
More than five years	25,000	37,000	4,570
	<u>3,440,070</u>	<u>726,800</u>	<u>367,873</u>
Less: Amounts due within one year shown under current liabilities	1,266,320	373,050	317,943
	<u>2,173,750</u>	<u>353,750</u>	<u>49,930</u>

All borrowings are denominated in RMB except for secured borrowings amounting to approximately RMB5,573,000, nil and RMB682,820,000 as at 31 December 2007, 2008 and 2009, respectively, are denominated in USD, foreign currency of relevant group entities.

The analysis of the Group's fixed-rate borrowings based on their contractual maturity dates are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Fixed-rate borrowings:			
Within one year	300,000	35,000	317,800
More than two years, but not exceeding five years	350,000	–	44,500
	<u>650,000</u>	<u>35,000</u>	<u>362,300</u>

In addition, the Group has variable-rate borrowings which carry interest linked to LIBOR and Benchmark Rate. Interest is repriced every six months. The analysis of the Group's variable rate borrowings based on their contractual maturity dates are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Variable-rate borrowings:			
Within one year.	966,320	338,050	143
More than one year, but not exceeding two years.	1,422,000	37,000	286
More than two years, but not exceeding five years.	376,750	279,750	574
More than five years	<u>25,000</u>	<u>37,000</u>	<u>4,570</u>
	<u>2,790,070</u>	<u>691,800</u>	<u>5,573</u>

The ranges of effective interest rates (which are the contracted interest rates) on the Group's borrowings are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Effective interest rate:			
Fixed-rate borrowings.	5.36% per annum	8.96% per annum	5.58% to 7.49% per annum
Variable-rate borrowings			
LIBOR	+1% per annum	N/A	+2.55% per annum
Benchmark Rate.	-0.27% to +1.08% per annum	+0.76% to 1.51% per annum	N/A

The borrowings with the carrying amounts of RMB90,000,000, RMB157,000,000 and nil as at 31 December 2007, 2008 and 2009, respectively, were guaranteed by Ms. Zeng Jie and Mr. Pan Jun, the directors of the Company. The guarantees had been released during 2009.

38. SHARE CAPITAL

	Number of shares	Amount HK\$	Equivalent to RMB'000
Ordinary shares of HK\$0.1 each			
Authorised:			
At 17 October 2007 (date of incorporation), 31 December 2007, 1 January 2008, 31 December 2008 and 1 January 2009	1,000,000	100,000	90
Increase on 27 October 2009 (note 5)	7,999,000,000	799,900,000	703,918
On 31 December 2009	<u>8,000,000,000</u>	<u>800,000,000</u>	<u>704,008</u>
Issued and fully paid:			
At 17 October 2007 (date of incorporation)	1	1	–
Issue of shares	99,999	9,999	9
At 31 December 2007, 1 January 2008, 31 December 2008 and 1 January 2009	100,000	10,000	9
Capitalisation issue (note 5)	3,644,900,000	364,490,000	321,115
Issue of new shares (note 6)	1,228,888,750	122,888,875	108,265
On 31 December 2009	<u>4,873,888,750</u>	<u>487,388,875</u>	<u>429,389</u>

Notes:

- (1) At the time of incorporation, 1 share was issued at par to the subscriber to provide the initial capital to the Company.
- (2) On 30 November 2007, the Company issued 8 ordinary shares to Fantasy Pearl in exchange for the entire issued share capital of Winning Sky International Limited (“Winning Sky”), Fantastic Victory Limited, Wisdom Regal Limited and Ace Link Pacific Limited.
- (3) On 21 December 2007, 87,091 ordinary shares were issued at par to Fantasy Pearl. The purpose of issuing these shares is to provide additional working capital.
- (4) On 21 December 2007, 12,900 ordinary shares were issued to independent private investors pursuant to a subscription agreement at the same date, at aggregate consideration of USD100,000,000 (equivalent to RMB734,891,000). The proceeds were used to reduce borrowings and to provide additional working capital to the Company.
- (5) Pursuant to written resolutions of all the shareholders passed on 27 October 2009, the authorised share capital of the Company was increased from HK\$100,000 to HK\$800,000,000 which rank pari passu in all respects with the shares then in issue. In addition, the directors were authorised, and resolved, to capitalise HK\$364,490,000 (equivalent to approximately RMB321,115,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 3,644,900,000 shares.
- (6) On 25 November 2009, the Company issued 1,215,000,000 shares with a nominal value of HK\$0.1 each, at a price of HK\$2.18 per share by way of a global offering to Hong Kong and overseas investors. On 22 December 2009, over-allotment of 13,888,750 shares of HK\$0.1 each in the Company at a price of HK\$2.18 per share was issued pursuant to the international underwriting agreement.

Shares issued by the Company during the year ended 31 December 2009 rank pari passu with each other in all respects.

39. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of assets and liabilities through acquisition of subsidiaries

For the year ended 31 December 2009

On 25 September 2009, the Group acquired the assets and liabilities of a property project through the acquisition of 100% equity interests in Shenzhen Huiheng Property Company Limited (“Shenzhen Huiheng”) from independent third parties at a consideration of approximately RMB10,000,000.

The above transaction was accounted for as purchase of assets and liabilities. Details of the net assets acquired in respect of the above transaction are summarised below:

	<u>RMB'000</u>
Net assets acquired	
Prepaid lease payments	100,512
Premium on prepaid lease payments.	47,579
Other receivables	70
Bank balances and cash.	1
Amount due to a subsidiary of the Company.	(138,000)
Other payables	(162)
	<u>10,000</u>
Total consideration satisfied by cash	<u>10,000</u>
Net cash (outflow) inflow arising on acquisition	
Cash consideration paid	(10,000)
Bank balances and cash acquired	1
	<u>(9,999)</u>

For the year ended 31 December 2008

The Group acquired a property project and its related assets and liabilities from independent third parties in two stages. On 18 June 2008, the Group acquired 60% equity interests in Chengdu Jiurong Real Estate Development Co., Ltd. at a consideration of approximately RMB94,856,000 and resulted in the minority interests of approximately RMB63,236,000. On 11 September 2008, the Group acquired the remaining 40% equity interests in Chengdu Jiurong Real Estate Development Co., Ltd. at a consideration of approximately RMB63,236,000 and Chengdu Jiurong Real Estate Development Co., Ltd. became a wholly owned subsidiary of the Group.

The above transaction has been accounted for as purchase of assets and liabilities. Details of the net assets acquired in respect of the above transaction are summarised below:

	<u>RMB'000</u>
Net assets acquired	
Properties for sales under development.	140,863
Trade and other receivables	17,892
Bank balances and cash.	332
Trade and other payables.	(850)
Tax payable	(145)
	<u>158,092</u>
Total consideration satisfied by cash	<u>158,092</u>
Net cash (outflow) inflow arising on acquisition	
Cash consideration paid	(158,092)
Bank balances and cash acquired	332
	<u>(157,760)</u>

For the year ended 31 December 2007

On 21 June 2007, the Group acquired the assets and liabilities of a property project through the acquisition of remaining 70% equity interests in Shenzhen Huaqianli Real Estate Development Company Limited and Dongguan Fantasia Real Estate Development Company Limited from an independent third party at a consideration of approximately RMB7,000,000. Prior to the acquisition, the Group held 30% equity interest in these entities and they have been accounted for as interests in associates. They became wholly-owned subsidiaries of the Group after the acquisition.

On 28 August 2007, the Group acquired the assets and liabilities of a property project through the acquisition of 60% equity interests in Yixing Jiangnan Shuixiang Tourism Resort Co., Ltd. from independent third parties at a consideration of approximately RMB40,000,000.

On 1 November 2007, the Group acquired a property project and its related assets and liabilities from an independent third party at a consideration of approximately RMB111,804,000. The purchase was by way of the acquisition of 100% equity interests in Tianjin Songjiang-Fantasia Real Estate Co., Ltd.

On 30 December 2007, the Group acquired a property project and its related assets and liabilities from independent third parties at a consideration of approximately RMB216,870,000. The purchase was by way of the acquisition of 94.52% equity interests in Chengdu Xinjin Youbang Real Estate Development Co., Ltd.

On 30 June 2007, the Group acquired a property project and its related assets and liabilities from independent third parties at a consideration of approximately RMB4,800,000. The purchase was by way of the acquisition of 66.36% equity interests in Sichuan Ximei Real Estate Development Co., Ltd.

The above transactions have been accounted for as purchase of assets and liabilities. Details of the net assets acquired in respect of the above transactions are summarised below:

	<u>RMB'000</u>
Net assets acquired	
Property, plant and equipment	798
Interest in an associate	3,750
Properties under development for sales.	611,147
Trade and other receivables	116,227
Bank balances and cash.	9,051
Trade and other payables.	(275,277)
Amounts due to related parties.	(40,948)
	<u>424,748</u>
Minority interests.	(38,553)
Less: interests in associates held prior to the acquisition	(5,721)
Total consideration satisfied by cash	<u>380,474</u>
Net cash (outflow) inflow arising on acquisition	
Cash consideration paid	(380,474)
Bank balances and cash acquired	9,051
	<u>(371,423)</u>

(b) Acquisition of business

For the year ended 31 December 2008

On 9 September 2008, the Group acquired 70% equity interests in Shenzhen Liantang, which was engaged in provision of property operation services, from independent third parties at a consideration of approximately RMB6,000,000. This acquisition has been accounted for using the purchase method. The amount of goodwill on acquisition was approximately RMB2,305,000.

On 28 February 2008, the Group acquired 100% equity interests in Joytime Investment Limited (“Joytime”) from Ms. Zeng Jie and Mr. Pan Jun, directors of the Company, at a consideration of RMB2. Joytime was engaged in investment holding and the Group acquired the equity interests in the aforesaid company solely for the purpose of rationalisation of the organisation structure. This acquisition has been accounted for using the purchase method.

On 28 February 2008, the Group acquired 100% equity interests in Gold Genius Holdings Limited (“Gold Genius”) from Ms. Zeng Jie and Mr. Pan Jun, directors of the Company, at a consideration of RMB2. Gold Genius was engaged in investment holding and the Group acquired the equity interests solely in the aforesaid company for the purpose of rationalisation of the organisation structure. This acquisition has been accounted for using the purchase method.

The aggregate net assets acquired in the above transactions and goodwill arising are as follows:

	Carrying amount before acquisition and fair value
	RMB'000
Net assets acquired	
Property, plant and equipment	50
Amounts due from directors	19
Trade and other receivables	6,080
Bank balances and cash.	3,502
Trade and other payables.	(5,916)
Amounts due to related parties.	(40)
	<u>3,695</u>
Goodwill	<u>2,305</u>
Total consideration satisfied by cash	<u><u>6,000</u></u>
Net cash (outflow) inflow arising on acquisition	
Cash consideration paid	(6,000)
Bank balances and cash acquired	3,502
	<u><u>(2,498)</u></u>

Shenzhen Liantang, Joytime and Gold Genius did not contribute significantly to the Group's cashflow, turnover and profit for the year ended 31 December 2008 since the date of acquisition. The contribution to the Group's turnover and profit for the year ended 31 December 2008 by Shenzhen Liantang, Joytime and Gold Genius would be insignificant had the acquisition been completed on 1 January 2008.

40. DISPOSAL OF SUBSIDIARIES

On 5 September 2007, the Group disposed of its 70% equity interests in Shenzhen Tianlan Investment Company Limited to Shenzhen Tiankuo (a related company of the group as defined in note 30) at approximately RMB7,000,000.

On 5 September 2007, the Group disposed of its 70% equity interests in Shenzhen Funian Property Real Estate Company Limited to Shenzhen Tiankuo at approximately RMB7,000,000.

On 17 September 2007, the Group disposed of its 41.6% equity interests in Shenzhen Flower Advertisement Company Limited to Shenzhen Tiankuo at approximately RMB800,000.

On 21 September 2007, the Group disposed of its 90% equity interests in San Jiao Zhou to Xi Fu Hui (a related company of the group as defined in note 30) at approximately RMB10,000,000.

On 28 February 2008, the Group disposed of its 100% equity interests in Chi Fu Development China Limited ("Chi Fu Development") to Ms. Zeng Jie and Mr. Pan Jun, directors of the Company, at approximately RMB39,491,000.

On 28 February 2008, the Group disposed of its 100% equity interests in Enco Development Limited ("Enco Development") to Ms. Zeng Jie and Mr. Pan Jun, directors of the Company, at approximately RMB416,000.

On 28 February 2008, the Group disposal of its 100% equity interests in Pujiang Daxigu to Shenzhen Tiankuo at approximately RMB1,000,000.

There was no disposal of equity interests in subsidiaries during the year ended 31 December 2009.

The summary net assets of the subsidiaries disposed of at the respective reporting dates are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Net assets (liabilities) disposed of			
Property, plant and equipments	–	–	11,226
Prepaid lease payments	–	15,139	5,415
Premium of prepaid lease payments	–	–	25,688
Properties for sales	–	–	212
Trade and other receivables	–	–	3,157
Amounts due from directors	–	39,907	–
Amounts due from related parties	–	–	30,950
Bank balances and cash	–	119	598
Trade and other payables	–	(15)	(1,399)
Amount due to a related party	–	–	(30,103)
Amount due to an immediate holding company	–	(14,154)	–
Tax payable	–	–	(16)
Deferred tax liabilities	–	–	(16,030)
	–	40,996	29,698
Minority interests	–	–	(7,031)
Gain on disposals recognised as contribution reserve	–	–	2,133
Loss on disposal of a subsidiary	–	(89)	–
Total consideration	–	40,907	24,800
Satisfied by:			
Cash	–	–	1,250
Amounts due from related parties	–	–	23,550
Amounts due from directors	–	40,907	–
	–	40,907	24,800
Net cash (outflow) inflow arising on acquisition:			
Cash consideration	–	–	1,250
Bank balances and cash disposed of	–	(119)	(598)
	–	(119)	652

The subsidiaries disposed of did not contribute significantly to the Group's cash flows, revenue and profit from operations during the years ended 31 December 2007 and 2008.

41. MAJOR NON-CASH TRANSACTIONS

On 5 September 2007, the Group disposed of its 70% equity interests in Shenzhen Funian at a consideration of RMB7,000,000.

On 5 September 2007, the Group disposed of its 70% equity interests in Shenzhen Tianlan at a consideration of RMB7,000,000.

On 21 September 2007, the Group disposed of its 90% equity interests in San Jiao Zhou at a consideration of RMB10,000,000, in which RMB9,550,000 was not settled in cash.

On 15 October 2007, the Group disposed of its 25% equity interests in Xi Fu Hui at a consideration of RMB2,500,000.

On 28 February 2008, the Group disposed of its 100% equity interests in Chi Fu Development to Ms. Zeng Jie and Mr. Pan Jun, directors of the Company, at a consideration of approximately RMB39,491,000.

On 28 February 2008, the Group disposed of its 100% equity interests in Enco Development to Ms. Zeng Jie and Mr. Pan Jun, a directors of the Company, at a consideration of approximately RMB416,000.

On 28 February 2008, the Group disposed of its 100% equity interests in Pujiang Daxigu to Shenzhen Tiankuo at a consideration of approximately RMB1,000,000.

On 20 March 2008, the Group disposed of its property, plant and equipment and prepaid lease payment to Ms. Zeng Jie, a director of the Company at their respective carrying amounts of approximately RMB956,000 and RMB7,486,000, respectively.

The considerations for the above disposals were settled through the current account with directors and related parties.

42. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009	2008	2007
	RMB'000	RMB'000	RMB'000
Within one year	5,119	5,785	7,422
In the second to the fifth year inclusive	16,473	15,952	7,703
After the fifth year	16,531	18,537	–
	38,123	40,274	15,125
	38,123	40,274	15,125

Operating lease payments represent rentals payable by the Group for certain offices premises. Leases are negotiated for an average term of 1 to 10 years with fixed rentals.

The Group as lessor

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease payments:

	2009	2008	2007
	RMB'000	RMB'000	RMB'000
Within one year	9,377	7,291	7,720
In the second to the fifth year inclusive	29,467	27,660	26,505
After the fifth year	59,426	56,905	69,471
	98,270	91,856	103,696
	98,270	91,856	103,696

Property rental income represents rentals receivable by the Group. Leases are negotiated for an average term of 1 to 18 years with fixed rentals.

43. OTHER COMMITMENTS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Construction commitments in respect of properties for sales, investment properties and hotels contracted for but not provided in the consolidated financial statements	<u>1,060,410</u>	<u>1,012,435</u>	<u>412,696</u>
Commitment in respect of the acquisition of subsidiary contracted for but not provided in the consolidated financial statements	<u>–</u>	<u>–</u>	<u>6,000</u>

44. RETIREMENT BENEFITS PLANS

The Group 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 control of a trustee. The Group contributes lower of 5% of relevant payroll costs or HK\$1,000 per person to the Scheme, which is matched by employees.

The employees of the Group in the PRC are members of state-managed retirement benefit scheme operated by the PRC Government. The Company's subsidiary is required to contribute a certain percentage of payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the scheme is to make the required contributions under the scheme.

45. CONTINGENT LIABILITIES

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	RMB'000	RMB'000	RMB'000
Guarantees given to banks for:			
– mortgage facilities granted to purchasers of the Group's properties (note a)	1,626,282	719,325	661,172
– bank loans to a subsidiary of a minority shareholder (note b)	<u>–</u>	<u>–</u>	<u>100,000</u>
	<u>1,626,282</u>	<u>719,325</u>	<u>761,172</u>

Notes:

- (a) The Group had provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with accrued interests thereon and any penalty owed by the defaulted purchasers to banks. The Group is then entitled to take over the legal title of the related properties. The guarantee period commences from the dates of grant of the relevant mortgage loans and ends after the buyer obtained the individual property ownership certificate.

In the opinion of the directors, the fair value of guarantee contracts is insignificant at initial recognition. Also, no provision for the guarantee contracts at the end of the respective reporting periods are recognised as the default risk is low.

- (b) Shenzhen Jing Ji Property Development Company Limited (“Shenzhen Jing Ji”) (深圳市京基房地產開發有限公司), a subsidiary of the minority shareholder of Shenzhen Xingyan Investment Development Co., Ltd., has issued corporate guarantees amounting to RMB90,000,000, at nil consideration, to certain banks in respect of banking facilities granted to Shenzhen Xingyan Investment Development Co., Ltd. In addition, Shenzhen Xingyan Investment Development Co., Ltd. issued cross guarantees amounting to RMB280,000,000 at nil consideration, to certain banks in respect of banking facilities granted to Shenzhen Jing Ji and RMB100,000,000 was drawn down by Shenzhen Jing Ji as at 31 December 2007. No provision for the guarantee contract is recognised as at 31 December 2007 as in the opinion of the directors, the default risk is low. The cross corporate guarantees have been released during the year ended 31 December 2008.

46. RELATED PARTY DISCLOSURES

- (1) In addition to those disclosed in notes 9, 18, 19, 28, 30, 34, 35, 37, 39, 40 and 41, the Group had significant transactions with related parties as follows:

On 5 September 2007, the Group disposed of its 31% equity interests in Shenzhen Cube Architecture Designing Consultants Company Limited to Ms. Zeng Jie, a director of the Company, at a consideration of approximately RMB667,000 which is determined with reference to the initial investment cost.

On 5 September 2007, the Group disposed of its entire 30% equity interests in Shanghai Tiankuo Investment Company Limited (“Shanghai Tiankuo”) (an associate of the group as at 31 December 2006) to Shenzhen Tiankuo (a related company of the group as defined in note 30) at a consideration of approximately RMB9,000,000 which is determined with reference to the registered capital.

On 17 September 2007, the Group disposed of its 20% equity interests in Shenzhen Qiaozhi Technology Company Limited (an associate of the group as at 31 December 2006) to Shenzhen Jingrui Investment Development Company Limited (深圳京銳投資發展有限公司) at a consideration of approximately RMB1,900,000 which is determined with reference to the initial investment cost.

On 15 October 2007, the Group disposed of its entire 25% equity interests in Xi Fu Hui (a related company of the group as defined in note 30) to Sunyeer Properties Holdings Company Limited at a consideration of approximately RMB2,500,000 which is determined with reference to the registered capital.

On 23 November 2007, the Group acquired additional 40% equity interests in Shenzhen Kangnian (a non-wholly owned subsidiary of the group) from Shenzhen Tiankuo at a consideration of approximately RMB65,000,000.

<u>Related parties</u>	<u>Relationship</u>	<u>Transactions</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
			<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Shenzhen Cube Architecture Designing Consultants Company Limited	Company under significant influence by Ms. Zeng Jie, a director of the Company	Design services fee paid	–	2,451	2,816
San Jiao Zhou	Company controlled by Ms. Zeng Jie and Mr. Pan Jun, the directors of the Company	Management service fee received	500	400	–
Xi Fu Hui	Company controlled by Ms. Zeng Jie, a director of the of the Company	Property rental income received	301	301	301

During the years ended 31 December 2007, 2008 and 2009, the Group sold certain properties to its key management personnel of the Group, at a consideration of approximately RMB1,038,000, RMB4,496,000 and RMB6,738,000, respectively.

(2) Compensation of key management personnel

The remuneration of directors and other members of key management during the years are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Short-term benefit.	28,060	19,883	7,270
Post-employment benefit.	862	378	455
	<u>28,922</u>	<u>20,261</u>	<u>7,725</u>

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of principal subsidiaries indirectly held, unless otherwise stated, by the Company at 31 December 2007, 2008 and 2009 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion ownership interest held by the Company			Principal activities	Legal form
			2009	2008	2007		
Winning Sky International Limited	The BVI 8 March 2006	US\$100	100% (directly)	100% (directly)	100% (directly)	Investment holding	Private limited liability
Fantastic Victory Limited	The BVI 3 September 2007	US\$100	100% (directly)	100% (directly)	100% (directly)	Investment holding	Private limited liability
Wisdom Regal Limited	The BVI 3 September 2007	US\$100	100% (directly)	100% (directly)	100% (directly)	Investment holding	Private limited liability
Ace Link Pacific Limited	The BVI 3 September 2007	US\$100	100% (directly)	100% (directly)	100% (directly)	Investment holding	Private limited liability
Precise Idea Limited	The BVI 17 June 2009	US\$1	100%	N/A	N/A	Investment holding	Private limited liability
Talent Bright International Limited	The BVI 17 June 2009	US\$1	100%	N/A	N/A	Investment holding	Private limited liability
香港花樣年投資控股集團有限公司 Fantasia Investment Holdings Company Limited	Hong Kong 19 February 2001	HK\$10,000	100%	100%	100%	Investment holding	Private limited liability
悅泰投資有限公司 Joytime Investment Limited	Hong Kong 6 November 2007	HK\$10,000	100%	100%	N/A	Investment holding	Private limited liability
金展集團有限公司 Gold Genius Holdings Limited	Hong Kong 8 November 2007	HK\$10,000	100%	100%	N/A	Investment holding	Private limited liability
花樣年酒店管理(國際)有限公司 Fantasia Hotel Management (International) Company Limited	Hong Kong 15 July 2009	HK\$1	100%	N/A	N/A	Investment holding	Private limited liability
花樣年物業管理(國際)有限公司 Fantasia Property Management (International) Company Limited	Hong Kong 15 July 2009	HK\$1	100%	N/A	N/A	Investment holding	Private limited liability
香港康年貿易有限公司 Hong Kong Kangnian Trading Company Limited	Hong Kong 24 September 2009	US\$500,000	100%	N/A	N/A	Investment holding	Private limited liability
花樣年集團(中國)有限公司 Fantasia Group (China) Co., Ltd.*	The PRC 20 January 2006	RMB408,843,500	100%	100%	100%	Investment holding	Limited liability company
天津松江花樣年置業有限公司 Tianjin Songjiang Fantasia Real Estate Company Limited*	The PRC 29 May 2006	RMB50,000,000	60%	60%	60%	Property development	Limited liability company
深圳市花樣年投資發展有限公司 Shenzhen Xingyan Investment Development Co., Ltd.*	The PRC 28 September 1996	RMB100,000,000	52%	52%	52%	Investment holding, property development and investment	Limited liability company
深圳市星彥地產顧問有限公司 Shenzhen Xingyan Property Consultancy Company Limited*	The PRC 21 February 2000	RMB3,000,000	85%	85%	85%	Provision of property agency services	Limited liability company

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion ownership interest held by the Company			Principal activities	Legal form
			2009	2008	2007		
深圳市花樣年彩生活科技有限公司 Shenzhen Fantasia Colour Life Technology Company Limited*	The PRC 25 August 2006	RMB10,000,000	70%	70%	70%	Investment holding	Limited liability company
惠州大亞灣花萬裏實業有限公司 Huizhou Daya Bay Huawanli Industry Company Limited*	The PRC 8 June 2007	RMB51,000,000	100%	100%	51%	Property development	Limited liability company
天津市花樣年投資有限公司 Tianjin Fantasia Investment Company Limited*	The PRC 12 June 2006	RMB10,000,000	100%	100%	100%	Property development	Limited liability company
成都通和置業有限公司 Chengdu Tonghe Real Estate Company Limited*	The PRC 18 October 2001	RMB75,610,000	100%	100%	99.49%	Property development and investment	Limited liability company
深圳市花千里房地產開發有限公司 Shenzhen Huaqianli Real Estate Investment Development Company Limited*	The PRC 28 August 2006	RMB660,339,487	100%	100%	100%	Investment holding	Limited liability company
深圳置富房地產開發有限公司 Shenzhen Zhifu Real Estate Investment Development Company Limited*	The PRC 1 July 1994	RMB418,843,500	100%	100%	100%	Property development and investment	Limited liability company
深圳宏威裝飾設計工程有限公司 Shenzhen Hongwei Decoration & Designing Company Limited*	The PRC 25 May 1994	RMB10,000,000	100%	100%	60%	Provision of interior design services	Limited liability company
深圳市花樣年物業管理有限公司 Shenzhen Fantasia Property Management Company Limited*	The PRC 11 December 2000	RMB5,000,000	100%	100%	100%	Provision of property operation services	Limited liability company
深圳市彩生活網絡服務有限公司 Shenzhen Colour Life Network Services Company Limited*	The PRC 12 June 2007	RMB10,000,000	100%	100%	100%	Provision of property operation services	Limited liability company
深圳市開元同濟樓宇科技有限公司 Shenzhen Kaiyuan Tongji Building Science & Technology Company Limited*	The PRC 15 November 2001	RMB5,000,000	100%	100%	100%	Provision of security system design, installation and maintenance services	Limited liability company
深圳市蓮塘物業管理有限公司 Shenzhen Liantang Property Management Company Limited*	The PRC 16 November 1999	RMB3,000,000	100%	100%	N/A	Provision of property operation services	Limited liability company
花樣年實業發展(成都)有限公司 Fantasia (Chengdu) Development Company Limited*	The PRC 4 July 2001	RMB50,000,000	90%	90%	90%	Property development and investment	Limited liability company
花樣年(成都)生態旅遊開發有限公司 Fantasia (Chengdu) Ecological Tourism Development Company Limited*	The PRC 7 September 2006	RMB728,270,000	100%	100%	100%	Property development	Limited liability company
成都花萬里置業有限公司 Chengdu Huawanli Real Estate Company Limited*	The PRC 25 October 2005	RMB100,000,000	100%	100%	100%	Property development and investment	Limited liability company

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion ownership interest held by the Company			Principal activities	Legal form
			2009	2008	2007		
成都花千里置業有限公司 Chengdu Huaqianli Real Estate Company Limited*	The PRC 6 November 2006	RMB704,680,000	100%	100%	100%	Property development	Limited liability company
成都花百里置業有限公司 Chengdu Gaojiazhuang Hot Spring Leiswe Centre*	The PRC 22 May 2003	RMB30,000,000	100%	100%	100%	Property development	Limited liability company
東莞市花樣年房地產投資有限公司 Dongguan Fantasia Real Estate Investment Company Limited*	The PRC 4 December 2006	RMB30,000,000	100%	100%	100%	Property development	Limited liability company
雅浩科技發展(深圳)有限公司 Yahao Technology Development (Shenzhen) Company Limited*	The PRC 25 August 2005	HKD1,000,000	100%	100%	100%	Investment holding	Limited liability company
深圳市康年科技有限公司 Shenzhen Kangnian Technology Company Limited*	The PRC 9 February 2007	RMB87,250,000	100%	100%	76%	Property development and investment	Limited liability company
四川西美投資有限公司 Sichuan Ximei Investment Company Limited*	The PRC 7 June 2004	RMB500,000,000	100%	100%	66.36%	Property development	Limited liability company
天津福大房地產銷售有限公司 Tianjin Fuda Real Estate Development Company Limited*	The PRC 18 October 2004	RMB45,000,000	100%	100%	100%	Property development	Limited liability company
宜興市江南水鄉度假村有限公司 Yixing Jiangnan Shuixiang Tourism Resort Company Limited*	The PRC 19 April 2005	RMB28,000,000	60%	60%	60%	Property development	Limited liability company
深圳市星彥行置業有限公司 Shenzhen Xingyanhang Property Company Limited*	The PRC 23 April 2007	RMB4,000,000	100%	100%	100%	Provision of agency services	Limited liability company
成都新津友幫房地產開發有限公司 Chengdu Xinjin Youbang Real Estate Development Company Limited*	The PRC 9 May 2004	RMB85,000,000	100%	100%	95%	Property development	Limited liability company
成都花樣年望叢文化發展有限公司 Chengdu Fantasia Wangcong Culture Development Company Limited*	The PRC 6 August 2008	RMB10,000,000	100%	100%	N/A	Property development	Limited liability company
成都九蓉房地產開發有限公司 Chengdu Jiurong Real Estate Development Limited*	The PRC 22 August 2007	RMB320,000,000	100%	100%	N/A	Property development	Limited liability company
深圳花樣年商業管理有限公司 Shenzhen Fantasia Business Management Company Limited*	The PRC 3 June 2009	RMB100,000,000	100%	N/A	N/A	Property operation services	Limited liability company
深圳花樣年酒店管理有限公司 Shenzhen Fantasia Hotel Management Company Limited*	The PRC 3 June 2009	RMB50,000,000	100%	N/A	N/A	Hotel services	Limited liability company

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion ownership interest held by the Company			Principal activities	Legal form
			2009	2008	2007		
深圳市彩悅酒店管理有限公司 Shenzhen Caiyue Hotel Management Company Limited*	The PRC 20 August 2008	RMB100,000	100%	100%	N/A	Hotel services	Limited liability company
深圳市彩悅酒店有限公司 Shenzhen Caiyue Hotel Company Limited*	The PRC 15 January 2009	RMB100,000	100%	N/A	N/A	Hotel services	Limited liability company
寧夏回族自治區新聖基建築工程 有限公司 Ningxia Hui Nationality Autonomous Region Xingshengji Construction Company Limited*	The PRC 22 July 2009	RMB20,000,000	100%	N/A	N/A	Provision of construction services	Limited liability company
深圳市滙恒置業有限公司 Shenzhen Huiheng Property Company Limited*	The PRC 20 April 2006	RMB10,000,000	100%	N/A	N/A	Property development	Limited liability company
惠州市惠陽區花千里實業有限公司 Huizhou Huiyang Huaqianli Industry Company Limited.*	The PRC 14 August 2009	RMB1,200,000	100%	N/A	N/A	Property development	Limited liability company

* The English name is for identification purpose only.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

48. EVENTS AFTER THE REPORTING PERIOD

- (a) In January 2010, the Group entered into the following transactions: (i) a share purchase agreement (together with a supplemental agreement) with CITIC Shenzhen (Group) Co., Ltd. 中信深圳(集團)有限公司 (“CITIC Shenzhen (Group)”) and CITIC Shenzhen Real Estate Development Co., Ltd. 中信深圳集團房地產開發有限公司 (“CITIC Shenzhen”) in relation to the acquisition of 100% equity interest in Suzhou Huawanli (as defined in note 21) (the “Huawanli Acquisition”); (ii) a share purchase agreement (together with a supplemental agreement) with CITIC Shenzhen (Group) and CITIC Shenzhen in relation to the acquisition of 100% equity interest in Suzhou LKN (as defined in note 21) (the “LKN Acquisition”); and (iii) an asset transfer framework agreement with Suzhou CITIC Investment Co., Ltd. 蘇州中信投資有限公司 in relation to the acquisition of the Hotel Land (as defined in the announcement of the Company dated 2 March 2010) and the Hotel Project (as defined in the announcement of the Company dated 2 March 2010) which shall be effective upon the completion of the Huawanli Acquisition and the LKN Acquisition. After going through the listing-for-sale processes (掛牌出讓), the final selling prices of the Huawanli Acquisition and the LKN Acquisition was RMB585,365,600 and RMB 226,187,800, respectively. Details of the above transactions are more particularly stated in the announcement of the Company dated 2 March 2010. At the date these consolidated financial statements were authorised for issuance, the transfer of equity interests in Suzhou Huawanli and Suzhou LKN, respectively has been completed and the Group had paid an aggregate consideration of approximately RMB811,553,400 in relation to the Huawanli Acquisition and the LKN Acquisition.
- (b) In February 2010, the Group has successfully auctioned for a piece of land with an area of approximately 123,670.1 square meters in Wuxi City, the PRC, at consideration of RMB500,000,000.
- (c) On 14 April 2010, the Group entered into a share transfer framework agreement with independent third parties in connection with the transfer of 100% equity interests in Shenzhen Gaohua Investment Limited (“Shenzhen Gaohua”). Shenzhen Gaohua is principally engaged in the investment and trading business in the PRC. At the date of this report, Shenzhen Gaohua is in the course of acquiring companies which own land use rights in the PRC and the acquisition of equity interest in Shenzhen Gaohua is not yet completed. Total consideration for the project as stated in the framework agreement is approximately RMB936 million.

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