

**Extract of Company Operation and Financial Information of Country Garden Holdings Company Limited**

## **RISK FACTORS**

### **RISKS RELATING TO OUR BUSINESS**

#### **We are heavily dependent on the performance of the property market in the PRC, particularly in Guangdong Province**

Our business and prospects depend on the performance of the PRC property market. Any housing market downturn in China generally or in the regions where we have property developments could adversely affect our business, results of operations and financial condition. Our property developments currently are largely located in Guangdong Province. We established our business by developing private residential properties in Shunde District in 1997 and began expanding our project development activities to other locations in Guangdong Province in 1998. As of August 31, 2007, we had developed or were developing 25 projects in Guangdong Province and 10 projects outside Guangdong Province. The projects in Guangdong Province and outside Guangdong Province have an aggregate GFA (including completed properties, properties under development and properties for future development) of approximately 27,832,498 sq.m. and 9,831,615 sq.m., respectively. Although we are pursuing further business opportunities in other locations in the PRC, we intend to maintain and increase our market share in Guangdong Province.

Demand for private residential properties in the PRC, particularly in Guangdong Province, has been growing rapidly in recent years, but such growth is often coupled with volatility in market conditions and fluctuations in property prices. We cannot assure you that property development and investment activities will continue at past levels or that we will be able to benefit from the future growth in the property market in Guangdong Province or the PRC. Any adverse developments in national and local economic conditions as measured by such factors as GDP growth, employment levels, job growth, consumer confidence, interest rates and population growth in the PRC, particularly in the regions where our projects are located, may reduce demand and depress prices for our products and services and would have a material adverse effect on our results of operations and financial condition.

#### **Increasing competition in the PRC, particularly in Guangdong Province, may adversely affect our business and financial condition**

In recent years, a large number of property developers have undertaken property development and investment projects in Guangdong Province and elsewhere in the PRC. Our major competitors include large national and regional property developers and overseas developers (including a number of leading Hong Kong property developers), some of which may have better track records and greater financial and other resources than us. In addition, we also compete with small local homebuilders.

The intensity of the competition among property developers in Guangdong Province and other parts in the PRC for land, financing, raw materials and skilled management and labor resources may result in increased cost for land acquisition and construction, 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. An oversupply of properties available for sale could also depress the prices of the commodity properties we sell. Any of the above may adversely affect our business, results of operations and financial position.

In addition, the real estate markets in Guangdong Province and elsewhere in the PRC are rapidly changing. If we cannot respond to changes in market conditions in Guangdong Province or elsewhere or changes in customer preferences 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 funding resources to finance land acquisitions or property developments, or to service our financing obligations**

The property development business is capital intensive. We finance our property developments primarily through a combination of internal funding (which provides at least 35% of a project's capital), borrowings from banks and pre-sales and sales proceeds. Further, purchasers who choose to pay the purchase price in full without taking out a mortgage may not pay the full purchase price on time and this may affect our cashflow position. There is no guarantee that we will have sufficient cash flow available for land acquisitions or property developments or that we will be able to achieve sufficient pre-sales and sales to fund land acquisitions or property developments. In addition, we cannot assure you that we will be able to secure external financing on terms acceptable to us or at all.

As of June 30, 2007, the weighted average effective interest rate on our outstanding bank borrowings was 6.422%, and we had RMB4,606.4 million of outstanding bank borrowings, of which RMB1,270.5 million were short-term borrowings. Our interest on bank borrowings for the years ended December 31, 2004, 2005 and 2006, and the six months ended June 30, 2007 was RMB88.7 million, RMB164.4 million, RMB237.9 million and RMB148.7 million, respectively.

Our ability to arrange adequate financing for land acquisitions or property developments on terms that will allow us to earn reasonable returns depends on a number of factors that are beyond our control. The PRC government has in recent years taken a variety of policy initiatives in the financial sector to further tighten lending procedures for real estate developers.

The People's Bank of China ("PBOC") issued the Circular on Further Strengthening the Management of Loans for Property Business on June 5, 2003 to specify the requirements for banks providing loans for the purposes of real estate development. These requirements include:

- The property loan by commercial banks to real estate development enterprises shall be granted only as a real estate development loan and it is strictly forbidden to extend such loans as current capital loan for real estate development project or other loan item. No lending of any type shall be granted to enterprises which have not obtained the land use rights certificates, construction land permits, construction planning permit and construction work permit; and
- Commercial banks shall not grant loans to property developers to pay off land premium.

In addition, PBOC raised the benchmark one-year lending rate several times from 5.31% in October 2004 to 7.29% in September 2007. While this has not had, and we do not believe this will have, a material adverse effect on our ability to obtain financing on terms acceptable to us or on our overall financial condition, we cannot assure you that PBOC will not further raise lending rates or that our business, financial condition and results of operations will not be adversely affected as a result of these adjustments.

These initiatives may limit our flexibility and ability to use bank loans to finance our property developments and therefore may require us to maintain a relatively high level of internally-sourced cash. As a result, we may not have adequate resources to fund land acquisitions or property developments, or to service our financing obligations, and our business and financial condition may be materially adversely affected. In addition, the increase of benchmark lending rates has led to higher interest rates for mortgage loans, which may depress the demand in the real estate market in general.

### **We may not be able to obtain a sufficient number of sites or retain sites suitable for property developments**

We derive the majority of our revenue from the sale of properties that we have developed. This revenue stream is dependent on our ability to complete and sell our property developments. To maintain or grow our business in the future, we will be required to replenish our land reserve with suitable sites for developments. Our ability to identify and acquire a sufficient number of suitable sites is subject to a number of factors that are beyond our control.

The PRC government controls substantially all of the country's land supply and regulates the means by which real estate developers, including us, obtain land sites for property developments. As a result, the PRC government's land supply policies affect our ability to acquire land use rights for sites we identify and the costs of any acquisition. In May 2002, the PRC government introduced regulations requiring government departments and agencies to grant state-owned land use rights for residential or commercial property developments through public tender, auction or listing-for-sale. We will be required to go through these processes before we can acquire the land use rights to the desirable sites, which may result in higher land premiums than those we paid in the past. While we believe that our current level of land reserve should be able to support our property development projects for five years or more, the viability or growth of our business may not be sustainable if we are unable to obtain additional land sites for development at prices that allow us to achieve reasonable returns.

Under PRC law, if a developer fails to develop land in accordance with the terms of a land grant contract (including those relating to the payment of fees, the designated use of the land and the time for commencement and completion of the development), the relevant government authorities may issue a warning to or impose a penalty on the developer or confiscate the land. Any violation of the land grant terms may also restrict a developer's ability to participate, or prevent it from participating, in future land bidding. We cannot assure you that circumstances leading to confiscation of land or delays in the completion of a property development will not arise in the future. If our land is confiscated, we will be unable to continue our property development on the confiscated land or recover the costs incurred in the initial acquisition of the confiscated land or recover development costs and other costs incurred up to the date of confiscation.

In addition, in the event that the government exercises its authority to confiscate any land use rights that have been legally granted to us, we may not be compensated for the full market value of the land.

### **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. We are also in the process of upgrading our accounting system. To effectively manage our expanded operations, especially projects outside Guangdong Province, we need to recruit as well as strengthen internal training for, managerial, accounting, internal audit, engineering, technical, sales and other staff to satisfy our development needs. As of December 31, 2004, 2005 and 2006, and as of June 30, 2007, we had 13,855, 16,866, 17,968 and 21,292 full-time employees, respectively. We expect to continue to hire more employees to support our further expansion. 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 existing business and operations and training an increasing number of personnel to manage and operate the expanded business. We also cannot 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.

**We may not be successful in expanding into each new city that we target or in developing each new business segment that we explore**

We are expanding our development projects into new geographical locations outside Guangdong Province, including Hunan Province, Inner Mongolia, Jiangsu Province, Liaoning Province and Hubei Province. We expect to continue to expand our operations to other cities in China that have high growth potential. We cannot assure you that we will be able to operate in these new areas successfully.

Further, our plans include projects that differ significantly from our past and current projects in terms of targeted customers and business segments. Our primary experience to date has been in developing high quality residential properties for sale, construction and decoration of those properties, management of residential developments, and hotel operation. We have plans to expand into the business of developing office buildings in other areas in the PRC for our own use or for leasing to other companies. This is a relatively new business for us, and there is no assurance that we will be successful in expanding into this area. We may not realize any revenue from this business, and even if revenue is realized, there is no assurance that the market demand for office space will be sufficient to provide us with an adequate return on our investment.

Our rapid expansion, especially into development projects that are significantly different from our past and current projects, and the need to integrate operations arising from our expansion particularly into other fast growing cities in the PRC, may place a significant strain on our managerial, operational and financial resources and further contribute to an increase in our financing requirements.

**We may not be able to obtain land use rights certificates with respect to certain parcels of land in which we currently have interests**

We have parcels of land in which we have various interests but for which we have not yet obtained the relevant land use rights certificates. As of August 31, 2007, these parcels of land occupied an aggregate site area of approximately 12,327,960 sq.m. with an aggregate expected GFA of approximately 21,431,978 sq.m. for future development. If we fail to obtain the land use rights certificates with respect to these parcels of land in a timely manner, or at all, we may not be able to acquire new land in replacement on terms acceptable to us, or at all. This would have a material adverse effect on our business, financial condition and results of operations and business prospects going forward. See “Business—Description of Our Property Project.”

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

The real estate industry in the PRC is heavily regulated by the PRC government. Developers must comply with a variety of legal and regulatory requirements, as well as the policies and procedures established by local authorities to implement such laws and regulations. To undertake and complete a property development, a real estate developer must obtain permits, licenses, certificates and other approvals from the relevant administrative authorities at various stages of the property development, including land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmations of completion and acceptance. Each approval is dependent on the satisfaction of a set of conditions.

We cannot assure you that we will not encounter significant problems in satisfying the conditions to the approvals, or that we will be able to adapt ourselves to new laws, regulations or policies that may come into effect from time to time with respect to the real estate industry in general or the particular processes related to the granting of the approvals. There may also be delays on the part of the administrative bodies in reviewing our applications and granting approvals. If we fail to obtain, or experience material delays in obtaining, the requisite governmental approvals, the schedule of development and sale of our developments could be substantially disrupted, resulting in a material adverse effect on our business, financial condition and results of operations.

### **Our profit margin is sensitive to fluctuations in the cost of construction materials**

Construction costs comprise one of the predominant components of our cost of sales. Construction costs encompass all costs for the design and construction of a project, including payments to third-party contractors, costs of construction materials, foundation and substructure, fittings, facilities for utilities and related infrastructure such as roads and pipelines. Historically, construction material costs have been the principal driver of the construction costs of our property development projects, with the cost of third-party contractors remaining relatively stable. However, as the construction material costs are often included in the construction costs paid to our contractors, it has been difficult for us to estimate such costs.

Construction costs may fluctuate as a result of the volatile price movement of construction materials such as steel and cement. We seek to reduce our exposure to short-term price fluctuations of construction materials and limit project cost overruns by centralizing our procurement to lower our purchase costs. We also manage the cost of outsourced construction work through a process of tenders which, among other things, takes into account procurement of supplies of principal construction materials such as steel and cement of our property development projects at fixed prices. In line with industry practice, if there is a significant price fluctuation (depending on the specific terms of each contract), we will be required to re-negotiate, top up or refund, depending on the price movement, existing construction contracts. Additionally, should our existing contractors fail to perform under their contracts, we might be required to pay more to contractors under replacement contracts. Our profit margin is sensitive to changes in the market prices for construction materials and our project margins will be adversely affected if we are not able to pass all of the increased costs onto our customers.

### **We are subject to legal and business risks if we fail to obtain or maintain qualification certificates**

Real estate developers in the PRC must obtain a formal qualification certificate (資質證書) in order to carry out property development business in the PRC. According to the Provisions on Administration of Qualification of Real Estate Developers (房地產開發企業資質管理規定), newly established developers must first apply for a temporary qualification certificate (暫定資質證書), which can be renewed for a maximum of two additional one-year periods, by which time a formal qualification certificate must have been issued. Before commencing their business operations, entities engaged in property management, construction, or fitting and decoration are required to obtain qualification certifications in accordance with the Measures on Administration of Qualification of Property Management Enterprises (物業管理企業資質管理辦法) and the Provisions on Administration of Qualification of Construction Enterprises (建築業企業資質管理規定). Real estate developers in the PRC are required to produce a valid qualification certificate when they apply for a pre-sale permit. See “Regulation—Qualifications of a Real Estate Developer.”

All qualification certificates are subject to renewal on an annual basis. In reviewing an application to renew a qualification certificate, the local authority takes into account the real estate developer’s registered capital, property development investments, history of property development and quality of property construction, as well as the expertise of the developer’s management and whether the developer has any illegal or inappropriate operations.

Each of our project companies, with the assistance of our group office, is responsible for the annual submission of its renewal application. If any one of our project companies is unable to meet the relevant qualification requirements, the local authorities will normally grant that project company, subject to a penalty of between RMB50,000 and RMB100,000, a grace period to rectify any insufficiency or non-compliance. Failure to satisfy the requirements within the specified time frame could result in rejection of the application for renewal of the qualification certificate and revocation of the business license of the project company. As of August 31, 2007, each of our project companies had obtained a valid qualification certificate except for seven newly established project companies.

We cannot assure you that the qualification certificates of all of our existing project companies will continue to be renewed or extended or that formal qualification certificates for new project companies will be obtained in

a timely manner, or at all. If our project companies are unable to obtain or renew their qualification certificates, they will not be permitted to continue their businesses, which could have a material adverse effect on our business and financial condition.

### **We face significant property development risks before we realize any benefits from a development**

Property developments typically require substantial capital outlays during the construction periods, and it may take months or years before positive cash flows, if any, can be generated by pre-sales of properties to be completed or sales of completed properties. The time and costs required to complete a property development may increase substantially due to many factors beyond our control, including the shortage or increased cost of material, equipment, technical skills and labor, adverse weather conditions, natural disasters, labor disputes, disputes with contractors, accidents, changes in government priorities and policies, changes in market conditions, delays in obtaining the requisite licenses, permits and approvals from the relevant authorities and other unforeseeable problems and circumstances. Any of these factors, singly or in the aggregate, may lead to a delay in, or the failure of, the completion of a property development and result in costs substantially exceeding those originally budgeted. Failure to complete a property development according to its original plan, if at all, may have an adverse effect on our reputation and could give rise to potential liabilities. As a result, our returns on investments, if any, might not be timely recognized or might be lower than originally expected.

### **We face risks relating to fluctuations of results of operations 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 is limited due to the substantial capital required for land acquisition, demolition and resettlement, construction, as well as limited land supplies and lengthy development periods before positive cash flows may be generated. In addition, in recent years, we have begun to develop larger scale property developments and, as a result, we develop properties in multiple phases over the course of several years. Typically, as the overall development moves closer to completion, the sales prices of the properties in such larger scale property developments tend to increase because a more established residential community is offered to purchasers. In addition, seasonal variations have caused fluctuations in our revenues and profits from quarter to quarter. For example, the sales of properties in the first quarter of each year is typically higher due to the long vacation periods toward the end of the year. On the contrary, during the Chinese New Year holidays, winter weather conditions can hinder construction of development projects, especially in northern China. Our revenue and profits, recognized upon the delivery of properties, in the first half of a year are often much lower than in the second half, and we will continue to experience significant fluctuations in revenue and profits on an interim basis. As a result, our results of operations fluctuate and our interim results do not proportionally reflect our annual results.

### **We will be increasingly affected by independent contractors**

We expect that as our business grows in terms of the number of projects and geographical coverage, we will increasingly engage independent contractors to provide various services, including design, construction and installation, engineering, construction supervision, fitting and decoration, most of which have been provided primarily by our own subsidiaries to date. Currently, a majority of our construction work is undertaken by Guangdong Giant Leap Construction Co. Ltd (“Giant Leap”), our wholly-owned subsidiary. As we expand to more regions outside Guangdong Province, we expect to outsource more construction work which in turn will increase our reliance on independent contractors. With respect to the outsourced work, we intend to continue our current practice of selecting independent contractors through a process of tenders by inviting contractors to tender based on their reputation for quality, their track record and references, and their reputation for supervising the construction process once a contract is awarded. We cannot assure you of the availability of qualified independent contractors in the market at the time of our intended outsourcing, nor can we assure you that the services rendered by our independent contractors will always be satisfactory or meet our quality requirements. 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.

**We face contractual and legal risks relating to the pre-sale of properties, including the risk that property developments may not be completed and the risk that changes in laws and regulations in relation to the pre-sales of properties may adversely affect our business, cash flow, financial condition and results of operations**

We face contractual risks relating to the pre-sales of properties. For example, if we fail to meet the completion time as stated in the pre-sale contracts, purchasers of pre-sold units have the right to claim damages under the pre-sale contracts. If we still fail to deliver the properties to the purchasers within the grace period stipulated in the contract, the purchasers have the right of termination. If the actual GFA of a completed property delivered to purchasers deviates by more than 3% from the GFA originally stated in the pre-sale contracts, purchasers have the right of termination or the right to claim damages.

Proceeds from the pre-sales of our properties are an important source of funds for our property developments and have an impact on our liquidity position. On August 5, 2005, the PBOC recommended in a report entitled "2004 Real Estate Financing Report" that the practice of pre-selling uncompleted properties be discontinued, on the ground that it creates significant market risks and generates transactional irregularities. While the recommendation has not been adopted by any PRC governmental authority and has no mandatory effect, we cannot assure you that the PRC governmental authority will not ban or impose material limitations on the practice of pre-selling 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 developments. This, in turn, could have a material and adverse effect on our business, cash flow, financial condition and results of operations.

**Our sales and pre-sales will be affected if mortgage financing becomes more costly or otherwise less attractive**

A majority of purchasers of our residential properties 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 impacting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. According to regulations issued by the China Banking Regulatory Commission (the "CBRC"), purchasers of homes equal to or smaller than 90 sq.m. are required to pay a minimum of 20% of the purchase price as down payment. If the purchased home is larger than 90 sq.m., a minimum of 30% of the purchase price as down payment is required, pursuant to a regulation from June 1, 2006. Furthermore, on September 27, 2007, the PBOC and the CBRC increased the minimum down payment for purchasers of second homes from 30% to 40% of the purchase price regardless of the size of the second home, if the purchaser obtained his or her first home through a mortgage. Moreover, the mortgage loan rates for subsequent mortgages are required to be not less than 1.1 times the corresponding PBOC benchmark lending rates. Monthly mortgage payments are limited to 50% of an individual borrower's monthly income. In addition, the down payment for commercial properties has been increased from 40% to 50% of their purchase prices. If the availability or attractiveness of mortgage financing is further reduced or limited, many of our prospective customers may not be able to purchase our properties. As a result, our business, financial condition and results of operations could be materially and adversely affected.



**Resettlement negotiations may add costs or cause delays to our development projects**

Under PRC laws and regulations, where we are responsible for the demolition of existing properties on a site for development and removal of existing residents, we will be required to pay resettlement costs to those residents. Even if we are not responsible for the demolition and removal, if the party responsible for the demolition and removal and the party subject to the demolition and removal fail to reach an agreement for compensation and resettlement, either of them may apply for a ruling from the relevant governmental authorities. If a party is not satisfied with the ruling, it may initiate proceedings in a PRC court within three months from the date of service of such ruling, which may cause delays to the development projects. Such proceedings and delays, if they occur, could adversely affect our reputation. In addition, any such delays to our development projects will lead to an increase in the cost and a delay in the expected cash inflow resulting from pre-sales of the relevant project and the recognition of sales as revenue upon completion, which may in turn adversely affect our business, financial position and results of operations.

**We may not receive full compensation for assistance we provide to local governments to clear land for government land sales**

In certain cases where we are interested in acquiring land, we assist local governments in clearing the land and relocating the original residents so that the land is ready for tender, auction and listing-for-sale. In such cases, we enter into land clearance agreements with the relevant land authorities, under which we are reimbursed for expenses we incur for land clearance and relocation and we are entitled to a portion of the profit realized by the local government on the land sale. We do not have the exclusive rights to acquire the land use rights. We do not control the timing of the sale of the land use rights in the land that we have cleared, nor do we set the price for which such land use rights are sold. Sales of the land use rights are conducted by the relevant local government land authorities, through a bidding, auction or listing-for-sale process. We cannot assure you that we will win the bid in a timely manner or at all; nor can we assure you that the relevant land authority will achieve an optimal price for the sale of such land use rights. We cannot assure you that we will be reimbursed for the expenses that we incur in connection with such land clearance, nor can we assure you that we will receive any profit from such land use right sales. Further, we cannot assure you that the PRC government will not issue new laws or regulations revoking the land clearance agreements that we have entered into with the local governments.

**We guarantee the mortgages provided to our purchasers and, consequently, we are liable to the mortgagee banks if our purchasers default on their mortgage payments**

We arrange for various banks to provide mortgage services to the purchasers of our properties. In accordance with market practice, domestic banks require us to provide guarantees in respect of these mortgages. The majority of these guarantees are short-term guarantees which are released upon the earlier of the issuance of the individual property ownership certificate (房產所有權證) to the owner of the property or the certificate of other rights of property (房地產他項權利證) to the mortgage bank by the relevant housing administration department, which generally takes place within three months after we deliver the relevant property to the purchasers, or the full settlement of the mortgaged loans by the purchasers. Prior to 2003, we also provided long-term guarantees for the mortgage loans of some of our customers which are discharged two years from the day the mortgaged loans become due. 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 mortgage banks. As of December 31, 2004, 2005 and 2006 and June 30, 2007, our outstanding guarantees for the mortgage loans of our customers amounted to RMB3,183.1 million, RMB3,213.8 million, RMB5,822.7 million and RMB6,918.6 million, respectively. For the years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2007, the amounts of default in relation to the mortgage loans taken out by our customer and secured by our guarantees were RMB13.3 million, RMB15.6 million, RMB13.4 million and RMB4.1 million, respectively. Although we have historically experienced a low rate of default on mortgage loans guaranteed by us, there is no assurance that the purchaser default rate will not increase in the future. If such an increase occurs and our guarantees are called upon, our business, financial condition and results of operations could be adversely affected.

### **Disputes with joint venture partners may adversely affect our business**

We have, and expect to have in the future, interests in PRC joint venture entities in connection with our property development plans. In certain circumstances, our existing joint venture entities have relied on financial support from us, and we expect they will continue to do so. In addition, in accordance with PRC law, certain matters relating to a joint venture require the consent of all parties to the joint venture. PRC joint ventures may involve risks associated with the possibility that our joint venture partners may:

- have economic or business interests or goals that are inconsistent with ours;
- take actions contrary to our instructions or requests or contrary to our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant joint venture agreements;
- have financial difficulties; or
- have disputes with us as to the scope of their responsibilities and obligations.

We cannot assure you that we will not encounter problems with respect to our joint venture partners which may have an adverse effect on our business operations, profitability and prospects.

### **Any unauthorized use of our brand may adversely affect our business, and our trademark licensees may conduct their business in a way that is detrimental to our brand image**

Our brand receives high recognition in China. Any unauthorized use of our brand may have a negative impact on our brand image and adversely affect our business. In addition, we have granted a non-exclusive license to certain related parties to use our brand. We do not have control over the conduct of these licensees or other companies which may use our brand without our authorization. As a result, our business and reputation could be adversely affected due to any unauthorized use of our brand.

### **We do not have insurance to cover potential losses and claims in our operations**

We do not maintain insurance for the destruction of, or other damage to, our properties under construction. We carry property management liability insurance in connection with our property management business and accident insurance (i.e. employer's liability insurance) for our construction workers; however, we do not maintain insurance against other personal injuries or property damage that may occur during the construction of our properties. We also do not take out insurance coverage for the non-performance of contracts during construction and other risks associated with construction and installation work during the construction period.

Moreover, there are certain contingent liabilities for which insurance is not available on commercially practicable terms, such as losses caused by earthquake, typhoon, flooding, war and civil disorder.

We may not have sufficient funds to offset any such losses, damages or liabilities or to replace any property development that has been destroyed in the course of our operations and property development. In addition, any payments we make to cover any losses, damages or liabilities could have a material adverse effect on our business, financial condition and results of operations.

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

We may be involved in disputes with various parties involved in the development and the sale of our properties, including contractors, suppliers, construction workers, partners and purchasers. These disputes may lead to legal or other proceedings and may result in substantial costs and diversion of resources and management's attention. As most of our projects consist of multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the projects are

perceived to be inconsistent with our representations and warranties made to such earlier purchasers. In addition, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in pecuniary liabilities and cause delays to our property developments. See “Business—Legal Proceedings.”

### **We are exposed to construction disputes and litigation**

Apart from providing construction services to us, our construction company, Giant Leap Construction Co., is also responsible for the implementation of construction projects for other companies. It may be subject to legal claims and proceedings instituted by our customers, subcontractors, workers and other parties involved in the projects undertaken by us from time to time. Such claims and proceedings include claims for compensation for late delivery of construction works and delivery of substandard works and claims in respect of personal injuries and labor compensation in relation to works.

We are not engaged in any litigation or arbitration of material importance and we are not aware of any material litigation or claim that was pending or threatened by or against us. However, we cannot assure that we will not be engaged in any litigation or arbitration of material importance in the future. Although we have purchased insurance policies to cover potential litigation or arbitration claims, such claims may fall outside the scope or limit of our insurance coverage and our financial condition and results of operations may be adversely affected.

### **We may be liable to our customers for damages if we do not apply for individual property ownership certificates on behalf of our customers in a timely manner**

Property developers in the PRC are typically required to deliver to purchasers the relevant individual property ownership certificates within 90 days after delivery of the properties unless otherwise specified in the relevant sale and purchase agreement. Real estate developers, including we, generally elect to specify the deadline for the application of the individual property ownership certificates upon the provision of the necessary documents by the customers to allow sufficient time for the relevant application processes.

Under current regulations, we are required to submit the requisite governmental approvals in connection with our property developments, including land use rights documents and planning and construction permits, to the local bureau of land resources and housing administration within three months after the receipt of the completion and acceptance certificate for the relevant properties and apply for the general property ownership certificate in respect of these properties. We are then required to submit, within a stipulated period after delivery of the properties, the relevant property sale and purchase agreements, identification documents of the purchasers and proof of payment of deed tax, together with the general property ownership certificate, for the bureau’s review and the issuance of the individual property ownership certificates.

No material claim has been brought against us by any purchasers for late application of the individual property ownership certificates on behalf of our customers in the past three years. However, we cannot assure you that we will not in the future become liable to purchasers for the late application of the individual property ownership certificates on behalf of our customers due to our own fault or for any other reasons beyond our control.

### **Our branding and marketing strategy as well as our financial condition could be adversely affected if owners of the projects that we have developed elect to stop using us to provide property management services**

Through our wholly-owned property management subsidiary, Guangdong Management Co., we provide property management services to the owners and users of each project that we have developed. These services include rental agency, security management, maintenance, clubhouse operations, gardening and landscaping and

other customer services. We believe that property management is an integral part of our business and is very important to the successful marketing and promotion of our property developments. Under PRC law, owners may engage or dismiss a property management company with the consent of more than half of the owners who in the aggregate hold more than 50% of the total non-communal area of the building. If owners of the projects that we have developed elect to stop using us to provide property management services provided, our branding and marketing strategy as well as our revenue from the property management business would be adversely affected.

### **Our hotel operations involve uncertainties**

Certain residential projects that we have developed or will develop include high-end hotel operations.

Our approach to our hotel business is not focused on the profit contribution derived directly from our hotel operations. Rather, we view our hotel business as a value enhancer to our brand name recognition in the real estate market and as an integral component of our overall marketing strategy for our residential projects.

Our hotels are owned and operated by our own hotel companies. Although the managing staff at various levels have the relevant management experience, we could face considerable reputational and financial risks if the hotels are mismanaged. If we are unable to successfully manage our hotel business, it may have a material adverse effect on the results in that segment as well as our overall marketing strategy, financial condition and results of operations.

### **There is no assurance that certain current ancillary facilities will continue to provide services to the owners or users of our property developments**

The ancillary facilities within our residential communities enhance the value of our properties by improving the overall quality and value of the surrounding areas, thus offering a better living environment to the owners and users of our properties. However, we do not operate or manage some of the ancillary facilities, such as schools and hospitals. We cannot assure you that these facilities will continue to operate and provide services in our residential communities. In the event that these facilities cease to operate in our residential communities, our properties may become less attractive and competitive and this may adversely affect the value of our properties.

### **Any portion of our uncompleted and future property developments that are not in compliance with relevant laws and regulations will be subject to governmental approval and additional payments**

The local government authorities inspect property developments after their completion and issue Construction of Properties and Municipal Infrastructure Completed Construction Works Certified Reports (房屋建築工程和市政基礎設施工程竣工驗收備案表) if the developments are in compliance with the relevant laws and regulations. If the total constructed GFA of a property development exceeds the GFA originally authorized in the relevant land grant contracts or construction permit, or if the completed property contains built-up areas that do not conform with the plan authorized by the construction permit, the property developer may be required to pay additional amounts or take corrective actions with respect to such non-compliant GFA before a Construction of Properties and Municipal Infrastructure Completed Construction Works Certified Report can be issued to the property development.

We cannot assure you that local government authorities will not find the total constructed GFA of our existing projects under development or any future property developments to exceed the relevant authorized GFA upon completion.

### **The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations**

Under PRC tax laws and regulations, our PRC subsidiaries are subject to LAT, which is collected by local tax authorities. All income from the sale or transfer of land use rights relating to state-owned land, buildings and

their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation in value as defined by the relevant tax laws. Certain exemptions are available for the sale of ordinary standard residential houses (普通標準住宅) if the appreciation value does not exceed 20% of the total deductible items as defined in the relevant tax laws. Sales of commercial properties are not eligible for such exemption. We estimate and make provision for the full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations, but we only pay a portion of such provision each year as required by the local tax authorities. For each of the three years ended December 31, 2004, 2005 and 2006, and the six months ended June 30, 2007, we made a provision for LAT in the amount of RMB90.5 million, RMB329.3 million, RMB373.9 million and RMB340.3 million, respectively. For the same periods, we made LAT payments in the amount of RMB35.7 million, RMB82.1 million, RMB173.3 million and RMB116.0 million, respectively. Although we believe such provisions are sufficient, we cannot assure you that the tax authorities will agree with the basis on which we calculate our LAT obligations. In the event that they believe a higher LAT should be paid, our net profits after tax will be adversely affected. Further, on December 28, 2006, the State Administration of Taxation issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (關於房地產開發企業土地增值稅清算管理有關問題的通知) which came into effect on February 1, 2007. Such notice provides further clarifications as to the settlement of LAT. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situations. In the event that the implementation rules promulgated in the cities in which our projects are located require us to settle all the unpaid LAT, our cash flow may be adversely affected.

#### **Potential liability for environmental problems could result in substantial costs**

We are subject to a variety of laws and regulations concerning environmental protection. The particular environmental laws and regulations that apply to any given development site vary greatly according to the site's location and environmental condition, the present and former uses of the site and the nature of the adjoining properties. Requirements under environmental laws and conditions may result in delays in development schedule, may cause us to incur substantial compliance and other costs and may prohibit or severely restrict project development activity in environmentally-sensitive regions or areas.

The PRC national and local environmental regulations provide that if a construction project includes environmental facilities, such facilities will have to pass the inspection of the environmental authorities and an approval must be obtained before the environment facilities can start to operate. If a construction project does not include any environmental facilities, no such approval is required. As advised by our PRC legal advisor, our business is of a nature that is not required to construct environmental facilities therefore, no approval from the environmental authorities is necessary. However, we cannot assure you that the environmental authorities will not find it necessary for us to construct environmental facilities in the future. In such event, our business may be affected.

Also, as required by PRC law, each project developed by a property developer is required to undergo an environmental assessment, and an environmental impact assessment report is required to be submitted to the relevant government authorities for approval before commencement of construction. If such requirement is not complied with, the local environmental authority may issue orders to suspend construction of the project until the environmental impact assessment report is submitted and approved by the local environmental authority and may impose a fine of an amount between RMB50,000 and RMB200,000 on us in respect of such project. In the event that a suspension of construction and/or a fine is imposed, our financial condition may be adversely affected.

Although the environmental investigations conducted by local environmental authorities to date have not revealed any environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations, it is possible that these investigations did not reveal all environmental liabilities and that there are material environmental liabilities of which we are unaware. We cannot assure you that a future environmental investigation will not reveal any material environmental liability. Also, we cannot assure you that the PRC government will not change the existing laws and regulations or impose additional or

stricter laws or regulations, the compliance with which may cause us to incur significant capital expenditure. In addition, there is no assurance that we can comply with any such laws and regulations. See “Business—Environmental Matters” for further details of environmental matters.

**Our success depends significantly on the continued services of our senior management team and other key personnel**

Our future success depends significantly upon the continuing services of the members of our senior management team, in particular our chairman and executive Director, Yeung Kwok Keung, and our executive Director, Yang Erzhu, who have extensive experience in the real estate industry in the PRC. Yeung Kwok Keung is responsible for formulating development strategies, making decisions on investment projects and setting the direction of our operations and overall business management. Yang Erzhu specializes in the overall planning of our projects, property management, and business management. Our president and executive Director, Cui Jianbo, has extensive executive management experience. If one or more of our senior executives or other personnel are unable or unwilling to continue in their present positions, we may be unable to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially adversely affected.

In addition, we depend on the continued service of our executive officers and other skilled managerial and technical personnel, including notably our designers and architects. Competition for senior management and key personnel is intense, and the pool of qualified candidates is very limited. Our business could be adversely affected if we lose the services of our senior executives or key personnel without suitable replacements or if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing business.

Further, as we expect our business to continue to grow, we will need to recruit and train additional qualified personnel. If we fail to attract and retain qualified personnel, our business and prospects may be adversely affected.

**The interests of our controlling shareholder may not always align with our interests**

Our controlling shareholder, Yang Huiyan, beneficially owns approximately 58.19% of our company. The interests of our controlling shareholder may differ from our interests or the interests of our creditors. Our controlling shareholder could have significant influence in determining the outcome of any corporate transactions or other matters submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, the election of directors and other significant corporate actions. Our controlling shareholder also has the power to prevent or cause a change in control. Without the consent of our controlling shareholder, we may be prevented from entering into transactions that could be beneficial to us. In addition, our controlling shareholder is also the controlling shareholder of certain other companies outside of the Group. We cannot assure you that our controlling shareholder will act entirely in our interest or that any potential conflicts of interest will be resolved in our favor.

**Land use rights certificates and building ownership certificates of certain of the properties owned or used by us have not been obtained**

We have not obtained the building ownership certificates of certain of our properties, including: (i) a bowling alley in Shunde Country Garden; (ii) a health center in Shunde Country Garden Hospital; and (iii) staff quarters in Lirendong. Our PRC legal advisor has advised us that because of the lack of building ownership certificates for these properties, we may be ordered by the relevant PRC government department to (i) remedy the defect and pay a fine which represents more than 2% but less than 4% of the consideration payable under the relevant construction agreement of these properties and/or (ii) compensate for losses suffered by the users of these properties and/or (iii) vacate these properties. In the event that any of these penalties are imposed on us, our business may be affected.

In addition, we lease certain land and buildings from third parties who have not obtained the relevant land use rights certificates or the building ownership certificates, as applicable. We use these properties mainly to create additional green space for our property developments or as housing for some of our employees. In the event that the leases with these third parties are invalidated due to the defects in the leased properties' title, we will have to return or restore the properties, which may affect the overall appeal of our property development. We will also have to find substitute housing for the employees living in the premise.

**Our profit forecast in connection with our IPO is subject to inherent uncertainties and prospective investors should not rely on it**

We prepared a profit forecast for the year ending December 31, 2007 in connection with our IPO in April 2007. In addition, we did not prepare the profit forecast with the view towards compliance with published guidelines of the United States Securities and Exchange Commission and the American Institute of Certified Public Accountants (the "AICPA"). Accordingly, this information does not include disclosure of all information required by the AICPA guidelines on prospective financial information. We prepared this information in accordance with local market practice in Hong Kong in connection with our IPO. This information was based upon a number of assumptions and estimates that, while presented with numerical specificity and considered reasonable by us, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control, and upon assumptions with respect to future business decisions that are subject to change. Accordingly, no assurance can be given that these results will be realized and you should not rely on it. We have not reviewed the profit forecast since our IPO and some of the underlying assumptions may have changed. We do not intend to furnish any updated or revised profit forecast.

**The PRC government has recently implemented restrictions on the ability of PRC property developers which could affect how quickly we can deploy, as well as our ability to deploy the funds raised in any international capital market financing in our business in the PRC**

On July 10, 2007, the General Affairs Department of the State Administration of Foreign Exchange ("SAFE") issued the "Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment That Have Properly Registered with MOFCOM (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產專案名單的通知)." The notice stipulates, among other things, (i) that SAFE will no longer process foreign debt registrations or applications for 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 change of such registrations) or applications for sale and purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained approval certificates from local government commerce departments on or after June 1, 2007 but who 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. We cannot assure you that we have obtained or will obtain in a timely manner all relevant necessary approval certificates or registration for all our operating subsidiaries in the PRC to comply with the new regulation.

**RISKS RELATING TO THE PROPERTY SECTOR IN THE PRC**

**The real estate industry in the PRC is still at an early stage, and the property market and related infrastructure and mechanisms have not been fully developed**

Private ownership of property in the PRC is still in a relatively early stage of development. Although demand for private residential property in the PRC, including Guangdong Province, 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 by how much and when demand will develop, as many social, political, economic, legal and other factors, most of which are beyond our control, may affect the development of the market. The level of uncertainty is increased by the limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

The lack of a liquid secondary market for residential real estate may discourage investors from acquiring new properties. The limited amount of property mortgage financing available to PRC individuals, compounded by the lack of security of legal title and enforceability of property rights, may further inhibit demand for residential developments.

In addition, risk of property over-supply is increasing in parts of China, where property investment, trading and speculation have become overly active. In the event of actual or perceived over-supply, property prices may fall significantly and our revenue and profitability will be adversely affected.

### **The restrictive measures adopted from time to time by the PRC government to curtail the overheating of the real estate market could slow down the industry's rate of growth**

In response to concerns over the scale of the increase in property investment and the overheating of the real estate sector in the PRC over the past few years, the PRC government has introduced policies to restrict future development, including:

- suspending or restricting land grants and development approvals for villas and larger-sized units;
- tightening lending of bank loans to property developers and purchasers of developed properties and increasing the reserve requirements for commercial banks;
- imposing or increasing taxes on short-term gains from second-hand property sales; and
- restricting foreign investment in the property sector.

For more information about recent policies adopted by the PRC government to curtail the overheating of the PRC real estate market, see “Regulation—I. Measures on Adjusting the Structure of Housing Supply and Stabilizing Housing Price” and “Regulation—F. Real Estate Financing.”

The PRC government's measures to control the industry's rate of growth could limit our access to capital resources, reduce market demand and increase our operating costs. The PRC government may adopt additional and more stringent measures in the future, which could further slow the development of the industry and adversely affect our business operations.

## **RISKS RELATING TO THE PRC**

### **PRC economic, political and social conditions, as well as government policies, could affect our business**

Substantially all of our assets are located in the PRC, and all of our revenue is derived from within the PRC. Accordingly, our results of operations, financial position and prospects are significantly subject to the economic, political and legal developments of the PRC.

The economy of the PRC differs from the economies of most developed countries in many respects, including but not limited to:

- political structure;
- level of government involvement;
- level of development;



- growth rate;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a planned economy to a market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. However, since early 2004, the PRC government has implemented certain measures in order to prevent the PRC economy from overheating. These measures may cause a decrease in the level of economic activity, including demand for residential and commercial properties and may have an adverse impact on economic growth in the PRC. If China's economic growth slows down or if the Chinese economy experiences a recession, the growth or demand for our products may also slow down and our business, financial condition and results of operations will be adversely affected.

In addition, demand for our products and our business, financial condition and results of operations may be adversely affected by:

- political instability or changes in social conditions in the PRC;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- imposition of additional restrictions on currency conversion and remittances abroad.

#### **Governmental control of currency conversion may affect the value of your investment**

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency to jurisdictions outside China. We receive substantially all of our revenue in Renminbi. Under our current 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. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of the SAFE, by complying with certain procedural requirements. However, approval from the appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted to a jurisdiction outside China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access to foreign currencies for current account transactions in the future. If the PRC foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, our PRC subsidiaries may not be able to pay dividends in foreign currencies to us and we may not be able to service our debt obligations denominated in foreign currencies.

#### **The PRC legal system has inherent uncertainties that would affect our business and results of operations as well as the interest of our potential investors**

As all of our business is conducted, and substantially all of our assets are located, in the PRC, our operations are generally affected by and subject to the PRC legal system and PRC laws and regulations.

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters, such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view to developing a comprehensive system of commercial law. In particular,

legislation over the past 25 years has significantly enhanced the protections afforded to various forms of foreign investment in China. The legal system in China is continuing to evolve. Even where adequate laws exist in China, the enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited as reference but have limited weight as precedents.

Our primary operating subsidiaries were incorporated in China as “wholly foreign-owned enterprises.” Although we or our wholly-owned subsidiaries are the sole shareholder of, and therefore have full control over, these PRC entities, the exercise of our shareholder rights are subject to their respective articles of association and PRC laws applicable to foreign investment enterprises in China, which may be different from the laws of other developed jurisdictions.

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. The relative inexperience of China’s judiciary in many cases also creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Furthermore, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation, implementation and enforcement of these laws and regulations involve uncertainties due to the lack of established practice available for reference. We cannot predict the effect of future legal development in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the inconsistencies between local rules and regulations and national law. As a result, there is substantial uncertainty as to the legal protection available to us and our potential investors. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation has occurred. This may also limit the remedies available to you as an investor and to us in the event of any claims or disputes with third parties.

Any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

**It may be difficult to enforce any judgments obtained from non-PRC courts against us in the PRC**

Substantially all of our assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other western countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

**The national and regional economies may be adversely affected by a recurrence of avian influenza or SARS or another epidemic, thereby affecting our prospects**

Certain areas of China, including Guangdong Province, are susceptible to epidemics such as avian influenza and Severe Acute Respiratory Syndrome (“SARS”). A recurrence of avian influenza, SARS or any epidemic in Guangdong Province or other areas of China could result in material disruptions to our property developments, which in turn could materially and adversely affect our financial condition and results of operations.

## CAPITALIZATION

The following table sets forth on an actual basis our unaudited consolidated cash and cash equivalents, short-term debt and capitalization as of June 30, 2007. Except as otherwise disclosed herein, there has been no material change in our capitalization since June 30, 2007.

	As of June 30, 2007	
	Actual	
	RMB	US\$
	(in millions) (unaudited)	
<b>Cash and cash equivalents<sup>(1)</sup></b> .....	16,111.5	2,116.6
<b>Short-term borrowings<sup>(2)(3)(4)</sup></b>		
Bank borrowings-secured <sup>(5)</sup> .....	1,270.5	166.9
Total short-term borrowings .....	1,270.5	166.9
<b>Long-term borrowings<sup>(4)(6)(7)(8)</sup></b>		
Bank borrowings-secured <sup>(5)</sup> .....	3,335.9	438.2
Total long-term borrowings .....	3,335.9	438.2
<b>Capital and reserves</b>		
Issued capital (HK\$0.1 par value per share, 16,360,000,000 shares issued and fully paid) .....	1,617.7	212.5
Share Premium .....	13,371.9	1,756.6
Reserves .....	32.7	4.2
Retained earnings .....	1,421.0	186.7
<b>Total capitalization<sup>(9)</sup></b> .....	19,779.2	2,598.2

*Notes:*

- (1) Cash and cash equivalents exclude restricted cash of RMB759.1 million (US\$99.7 million). As of September 30, 2007, our cash and cash equivalents amounted to RMB9,129.1 million (US\$1,199.3 million).
- (2) Short-term borrowings include the current portion of long-term borrowings.
- (3) As of September 30, 2007, our unaudited short-term borrowings amounted to RMB674.6 million (US\$88.6 million). On October 15, 2007, we entered into a facility agreement as borrower in connection with a six months non-revolving term loan facility with the Bank of China (Hong Kong) Limited as lender, of up to the principal amount of HK\$1,500,000,000 for the purpose of financing our working capital. See “Description of Other Material Indebtedness—Term Loan”.
- (4) As of June 30, 2007, all of our long-term and short-term borrowings had been incurred by our PRC subsidiaries.
- (5) All of our borrowings were secured as of the dates indicated.
- (6) As of June 30, 2007, our consolidated capital commitments were RMB3,112.5 million (US\$408.8 million) and our contingent liabilities, all of which were in the form of guarantees that we have provided to our customers in relation to their purchase of our properties, amounted to approximately RMB6,918.6 million (US\$908.8 million). See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Contractual Obligations” and “—Contingent Liabilities.”
- (7) Long-term borrowings exclude the current portion of long-term borrowings.
- (8) As of September 30, 2007, our unaudited long-term borrowings amounted to RMB2,920.5 million (US\$383.6 million).
- (9) Total capitalization includes total long-term borrowings plus total capital and reserves.

## SELECTED COMBINED AND CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected financial data as of and for each of the fiscal years ended December 31, 2004, 2005, 2006 (except for EBITDA data), is derived from our combined financial statements for those years and as of the dates indicated. The selected financial data as of and for the six-month periods ended June 30, 2006 and 2007 is derived from our unaudited condensed consolidated interim financial information. The unaudited condensed consolidated interim financial information as of and for the six-month periods ended June 30, 2006 and 2007 contains all adjustments that our management believes are necessary for the fair presentation of such information. Results for interim periods are not indicative of results for the full year. The financial statements have been prepared and presented in accordance with HKFRS, which differ in certain material respects from U.S. GAAP. For a discussion of these differences, see ‘Summary of Certain Differences Between HKFRS and U.S. GAAP.’ The selected financial data below should be read in conjunction with ‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’ and the combined and consolidated financial statements and the notes to those statements.

Our combined financial information as of and for each of the fiscal years ended December 31, 2004, 2005 and 2006 were prepared on a combined basis and were extracted from the prospectus prepared in connection with our IPO and dated April 3, 2007. The unaudited condensed consolidated interim financial information as of and for the six-month periods ended June 30, 2006 and 2007 has been prepared on a consolidated basis as if our current group structure had been in existence through these periods, or since the Company and its subsidiaries’ respective dates of incorporation or establishment, whichever is the shorter period.

### Summary Combined Income Statement Information

	Year ended December 31,			
	2004	2005	2006	2006
	(RMB)	(RMB)	(RMB)	(US\$)
	(in millions, except percentages)			
Revenue	3,240.3	5,191.5	7,940.9	1,043.2
Cost of sales	(2,318.0)	(3,469.3)	(5,296.5)	(695.8)
<b>Gross profit</b>	<b>922.3</b>	<b>1,722.2</b>	<b>2,644.4</b>	<b>347.4</b>
Other gains/(losses)—net	21.2	16.3	59.0	7.8
Selling and marketing costs	(112.3)	(213.5)	(214.5)	(28.2)
Administrative expenses	(233.9)	(273.7)	(361.5)	(47.5)
Other expenses	(63.7)	(65.8)	(45.9)	(6.0)
<b>Operating profit</b>	<b>533.6</b>	<b>1,185.5</b>	<b>2,081.6</b>	<b>273.5</b>
Finance costs	(125.4)	(221.0)	(264.8)	(34.8)
<b>Profit before income tax</b>	<b>408.2</b>	<b>964.5</b>	<b>1,816.8</b>	<b>238.7</b>
Income tax expense	(171.1)	(375.0)	(144.3)	(19.0)
<b>Profit for the year</b>	<b>237.1</b>	<b>589.5</b>	<b>1,672.5</b>	<b>219.7</b>
<b>Attributable to:</b>				
Equity owner	255.0	615.4	1,519.5	199.6
Minority interests	(17.9)	(25.9)	153.0	20.1
	<u>237.1</u>	<u>589.5</u>	<u>1,672.5</u>	<u>219.7</u>
Dividends	414.5	382.8	2,513.7	330.2
	<u>414.5</u>	<u>382.8</u>	<u>2,513.7</u>	<u>330.2</u>
<b>OTHER FINANCIAL DATA</b>				
EBITDA <sup>(1)</sup>	669.4	1,353.6	2,238.2	294.0
EBITDA Margin <sup>(2)</sup>	20.7%	26.1%	28.2%	28.2%

## Summary Consolidated Income Statement Information

	Six months ended June 30,		
	2006	2007	2007
	(RMB)	(RMB)	(US\$)
	(in millions, except percentages) (unaudited)		
<b>Continuing operations</b>			
Revenue .....	4,077.8	6,033.8	792.7
Cost of sales .....	(2,591.5)	(3,754.7)	(493.3)
<b>Gross profit</b> .....	<b>1,486.3</b>	<b>2,279.1</b>	<b>299.4</b>
Other gains/(losses)—net .....	(41.8)	207.9	27.3
Selling and marketing costs .....	(116.1)	(157.6)	(20.7)
Administrative expenses .....	(162.4)	(291.1)	(38.2)
Other expenses .....	(37.3)	(10.6)	(1.4)
<b>Operating profit</b> .....	<b>1,128.7</b>	<b>2,027.7</b>	<b>266.4</b>
Finance costs .....	(138.8)	(148.7)	(19.5)
<b>Profit before income tax</b> .....	<b>989.9</b>	<b>1,879.0</b>	<b>246.8</b>
Income tax expense .....	(383.9)	(435.8)	(57.3)
<b>Profit for the year</b> .....	<b>606.0</b>	<b>1,443.2</b>	<b>189.6</b>
<b>Attributable to:</b>			
Equity owner .....	537.7	1,421.0	186.7
Minority interests .....	68.3	22.1	2.9
	<u>606.0</u>	<u>1,443.2</u>	<u>189.6</u>
Dividends .....	<u>376.3</u>	<u>512.6</u>	<u>67.3</u>
<b>OTHER FINANCIAL DATA</b>			
EBITDA <sup>(1)</sup> .....	1,197.3	1,750.5	230.0
EBITDA Margin <sup>(2)</sup> .....	29.4%	29.0%	29.0%

*Notes:*

- (1) EBITDA for any period consists of operating profit less interest income, plus depreciation expenses and amortisation of land use rights. 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 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 service debt and pay 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 "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/period under HKFRS to our definition of EBITDA.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

## Selected Combined Balance Sheet Information

	As of December 31,			
	2004 (RMB)	2005 (RMB)	2006 (RMB)	2006 (US\$)
	(in millions)			
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	897.2	996.5	944.6	124.1
Land use rights	2,115.5	2,108.8	2,171.6	285.3
Available-for-sale financial assets	5.0	25.0	20.0	2.6
Properties under development	75.0	113.8	212.6	27.9
Deferred income tax assets	431.3	723.9	555.5	73.0
	<u>3,524.0</u>	<u>3,968.0</u>	<u>3,904.3</u>	<u>512.9</u>
<b>Current assets</b>				
Land use rights	1,095.5	1,607.8	1,584.8	208.2
Properties under development	1,724.2	3,245.5	3,725.8	489.5
Completed properties held for sale	812.6	1,295.4	1,641.0	215.6
Inventories	104.5	114.0	90.0	11.8
Trade and other receivables	1,827.0	2,571.4	1,439.2	189.0
Prepaid taxes	91.6	264.1	942.0	123.8
Restricted cash	130.0	135.8	454.7	59.7
Cash and cash equivalents	546.3	824.7	1,529.7	201.0
	<u>6,331.7</u>	<u>10,058.7</u>	<u>11,407.1</u>	<u>1,498.6</u>
<b>Total assets</b>	<u>9,855.7</u>	<u>14,026.7</u>	<u>15,311.4</u>	<u>2,011.5</u>
<b>EQUITY</b>				
<b>Capital and reserves attributable to the equity owners</b>				
Combined capital	764.6	764.6	764.6	100.4
Reserves	900.0	1,540.2	545.3	71.6
	<u>82.7</u>	<u>17.1</u>	<u>165.5</u>	<u>21.7</u>
<b>Minority interests</b>				
<b>Total equity</b>	<u>1,747.3</u>	<u>2,321.9</u>	<u>1,475.4</u>	<u>193.7</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	2,099.7	3,723.2	2,858.2	375.5
Deferred income tax liabilities	546.3	634.7	131.0	17.3
	<u>2,646.0</u>	<u>4,357.9</u>	<u>2,989.2</u>	<u>392.8</u>
<b>Current liabilities</b>				
Advanced proceeds received from customers	1,979.7	3,830.1	7,482.0	982.9
Trade and other payables	2,451.1	2,287.5	1,848.8	242.9
Income tax payable	516.7	627.9	292.9	38.5
Borrowings	515.0	601.5	1,223.1	160.7
	<u>5,462.5</u>	<u>7,347.0</u>	<u>10,846.8</u>	<u>1,425.0</u>
<b>Total liabilities</b>	<u>8,108.5</u>	<u>11,704.9</u>	<u>13,836.0</u>	<u>1,817.7</u>
<b>Total equity and liabilities</b>	<u>9,855.7</u>	<u>14,026.7</u>	<u>15,311.4</u>	<u>2,011.5</u>
<b>Net current assets</b>	<u>869.2</u>	<u>2,711.7</u>	<u>560.2</u>	<u>73.6</u>
<b>Total assets less current liabilities</b>	<u>4,393.3</u>	<u>6,679.7</u>	<u>4,464.6</u>	<u>586.5</u>

## Selected Consolidated Balance Sheet Information

	As of June 30,	
	2007 (RMB) (in millions) (unaudited)	2007 (US\$)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,185.8	155.8
Intangible assets	224.8	29.5
Land use rights	2,465.2	323.9
Available-for-sale financial assets	20.0	2.6
Properties under development	577.6	75.9
Deferred income tax assets	471.8	62.0
	<u>4,945.2</u>	<u>649.7</u>
<b>Current assets</b>		
Land use rights	1,757.3	230.9
Properties under development	4,588.9	602.9
Completed properties held for sale	1,606.0	211.0
Inventories	105.0	13.8
Trade and other receivables	3,181.4	417.9
Prepaid taxes	1,145.7	150.5
Restricted cash	759.1	99.7
Cash and cash equivalents	16,111.5	2,116.6
	<u>29,254.9</u>	<u>3,843.3</u>
<b>Total assets</b>	<u>34,200.1</u>	<u>4,493.0</u>
<b>EQUITY</b>		
<b>Capital and reserves attributable to the equity owners</b>		
Reserves	32.7	4.3
Share capital and premium	14,989.6	1,969.2
Retained earnings	1,421.0	186.7
	<u>190.2</u>	<u>25.0</u>
<b>Minority interests</b>		
<b>Total equity</b>	<u>16,633.5</u>	<u>2,185.2</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	3,335.9	438.2
Deferred income tax liabilities	187.0	24.6
	<u>3,522.9</u>	<u>462.8</u>
<b>Current liabilities</b>		
Advanced proceeds received from customers	10,322.4	1,356.1
Trade and other payables	2,152.0	282.7
Income tax payable	298.8	39.3
Borrowings	1,270.5	166.9
	<u>14,043.7</u>	<u>1,845.0</u>
<b>Total liabilities</b>	<u>17,566.6</u>	<u>2,307.8</u>
<b>Total equity and liabilities</b>	<u>34,200.1</u>	<u>4,493.0</u>
<b>Net current assets</b>	<u>15,211.3</u>	<u>1,998.3</u>
<b>Total assets less current liabilities</b>	<u>20,156.6</u>	<u>2,648.0</u>

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

*The following discussion should be read in conjunction with our combined and consolidated financial information together with the accompanying notes. Our combined and consolidated financial statements were prepared in accordance with HKFRS, which differ in certain material respects from U.S. GAAP.*

*This section includes forward-looking statements that involve risks and uncertainties. All statements, other than statements of historical facts, included in this section that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses we made in light of experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances.*

### **BASIS OF PRESENTATION**

In preparation for our initial public offering, we and our subsidiaries underwent a Reorganization in 2006. Pursuant to the Reorganization, members of our original shareholders transferred to us all their interests in the property development and ancillary property-related businesses that we now conduct.

Prior to the completion of the Reorganization, our combined financial statements as of and for the years ended December 31, 2004, 2005 and 2006 were prepared on a combined basis as prescribed by the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants. For details on the basis of preparation, see Note 1 to the combined financial information as of and for the years ended December 31, 2004, 2005 and 2006.

The Reorganization was accounted for on the basis of merger accounting in the condensed consolidated financial information for the six-month periods ended June 30, 2006 and 2007. Our condensed financial information for the six-month periods ended June 30, 2006 and 2007 were prepared on a consolidated basis. See Note 1 to the unaudited condensed consolidated financial information for the six-month periods ended June 30, 2006 and 2007.

### **OVERVIEW**

We are one of the leading integrated property developers in the PRC, with substantially all of our assets and operations based in the PRC. We have benefited, since we first commenced our property development activities in 1997, and expect to continue to benefit from the growth in the property sector associated with the economic development of the PRC, and particularly in Guangdong Province. Our primary business has been the development of large-scale residential community projects and the sale of various types of products, including villas, townhouses, apartment buildings, parking spaces and retail shops. As an integrated property developer, our lines of business also include construction, installation, fitting and decoration and property management. In addition, we develop and manage hotels within some of our projects to enhance the projects' potential for value appreciation.

Our residential home projects are generally located in the suburban areas of first-tier cities and in the newly urbanized town centers of second- and third-tier cities. While the local residents in Guangdong Province



historically constitute our core customer base, we have also generated demand from residents in Hong Kong, Macau and neighboring provinces.

As of August 31, 2007, we had 35 projects at various stages of development. 25 of these projects are located in Guangdong Province: eight in Guangzhou City, five in Foshan City, four in Jiangmen City, one in Yangjiang City, three in Shaoguan City, two in Zhaoqing City, one in Huizhou City and one in Shanwei City. Another 10 projects are located in other provinces and regions including one in Changsha City in Hunan Province, one in each of Hulunbeier City and Xing'anmeng in Inner Mongolia, one in Taizhou City in Jiangsu Province and four in Shenyang City in Liaoning Province, one in each of Wuhan City and Xianning City in Hubei Province.

As of August 31, 2007, our projects had an aggregate completed GFA of approximately 6,957,800 sq.m., on which we had built 39,671 units to house an estimated of 158,000 people. We had an aggregate GFA under development of approximately 6,771,589 sq.m. and an aggregate GFA of approximately 23,934,723 sq.m. relating to properties held for future development as of the same day. In addition, as of August 31, 2007, we entered into land grant contracts in respect of land located in 13 cities with an aggregate site area of approximately 12,327,960 sq.m. pending issuance of land use rights certificates, with an aggregate expected GFA of approximately 21,431,978 sq.m. for future development.

The hotels that we have developed and currently operate include two five-star hotels and one four-star hotel, as well as three hotels which have been developed in accordance with the five-star rating standard set forth in the "Star-Rating Standard for Tourist Hotels" (旅遊飯店星級的劃分與評定). In addition, we have five hotels under construction in accordance with the five-star standard set forth in the "Star-Rating Standard for Tourist Hotels."

For the years ended December 31, 2004, 2005 and 2006, and for the six months ended June 30, 2007, our total revenue was RMB3,240.3 million, RMB5,191.5 million, RMB7,940.9 million and RMB6,033.8 million (US\$792.7 million), respectively. For the years ended December 31, 2004, 2005 and 2006, and for the six months ended June 30, 2007, our net profit was RMB237.1 million, RMB589.5 million, RMB1,672.5 million and RMB1,443.2 million (US\$189.6 million), respectively.

## **CERTAIN INCOME STATEMENT ITEMS**

### **Revenue**

Revenue comprises primarily the proceeds from the sale of properties or provision of services after the elimination of transactions between the companies now comprising the Group. Our revenue is primarily generated from our four business segments: property development, construction and decoration, property management and hotel operation.

Revenue from property development represents proceeds from the sale of our properties. As we derive a substantial amount of our total revenue from the property development segment, our results of operations for a given period are dependent upon the type and GFA of properties we have completed during that period, the market demand for those properties and the price we are able to obtain for such properties. Conditions in the property markets in which we operate change from period to period and are affected significantly by the general economic, political and regulatory developments in the PRC. See "—Key Factors Affecting Our Performance."

We recognize revenue from the sale of properties when the ownership of properties are transferred to the purchasers. For the years ended December 31, 2004, 2005, 2006 and the six months ended June 30, 2007, we recognized revenue of RMB2,150.4 million, RMB4,086.7 million, RMB6,961.4 million and RMB5,447.7 million in connection with the delivery of aggregate GFA of 427,530 sq.m., 731,173 sq.m., 1,318,397 sq.m. and 935,342 sq.m. of property, respectively, representing an average realized selling price per sq.m. (calculated by dividing the revenue from the property developments by the aggregate GFA sold) of RMB5,029.8, RMB5,589.2, RMB5,280.2 and RMB5,824.3, respectively.

Consistent with customary practice in the property development industry in the PRC, after satisfying the conditions for pre-sales according to PRC laws and regulations, we typically enter into purchase contracts with customers while the properties are still under development. See “Business—Property Development—Pre-sales.” Generally there is a time difference typically ranging from several months to one year between the time we commence pre-selling of properties under development and the delivery of properties to the purchasers. We do not recognize any revenue from the pre-sales of our properties until the development of such properties is completed and the properties are delivered to the purchasers, even though a portion of the purchase price for a property is typically paid at various stages prior to the delivery of properties. Before the delivery of a pre-sold property upon the completion of development, deposits and purchase price or portions thereof received from our customers are recorded as “advanced proceeds received from customers,” a current liability on our balance sheet, and reflected in the cash flow statements as an increase in advanced proceeds received from customers.

Revenue from construction services is recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a percentage of the total services to be provided. Revenue from decoration, property management and hotel services is recognized in the accounting period in which the services are rendered. The revenue generated by certain of our subsidiaries comprising the construction and decoration, property management and hotel operation segments from services provided to our projects is eliminated in our combined financial statements. For each of the three years ended December 31, 2004, 2005, 2006 and the six months ended June 30, 2007, our construction and decoration segment recognized revenue of RMB756.2 million, RMB670.4 million, RMB556.1 million and RMB380.9 million, respectively; our property management segment recognized revenue of RMB115.4 million, RMB134.5 million, RMB170.4 million and RMB105.4 million, respectively; and our hotel operation segment recognized revenue of RMB123.5 million, RMB185.3 million, RMB194.0 million and RMB99.8 million, respectively.

We also recognized revenue from our school operations segment prior to June 2006. Tuition fee income from school operations as an ancillary facility to the property development segment was recognized in the period in which the services are rendered. For the three years ended December 31, 2004, 2005, 2006 and the six months ended June 30, 2007, our school operation segment recognized revenue of RMB94.9 million, RMB114.7 million, RMB59.1 million and nil, respectively. We disposed of our school operations in June 2006.

### Cost of Sales

Cost of sales mainly comprises the costs incurred from our four business segments. The table below sets forth the cost of sales by segments and their percentage of the total cost of sales:

	Year ended December 31,						Six months ended June 30,			
	2004		2005		2006		2006		2007	
	Amount (RMB in thousands)	Percentage of total cost of sales %	Amount (RMB in thousands)	Percentage of total cost of sales %	Amount (RMB in thousands)	Percentage of total cost of sales %	Amount (RMB in thousands)	Percentage of total cost of sales %	Amount (RMB in thousands) (unaudited)	Percentage of total cost of sales %
Property development . . . . .	1,380,409	59.6	2,547,411	73.4	4,501,216	85.0	2,120,416	81.7	3,275,684	87.2
Construction and decoration . . . . .	585,250	25.2	507,045	14.6	427,824	8.0	265,629	10.3	298,463	7.9
Property management . . . . .	138,713	6.0	142,167	4.2	163,280	3.1	74,324	2.9	102,955	2.7
Hotel operation . . . . .	111,020	4.8	154,278	4.4	147,750	2.8	74,709	2.9	77,632	2.1
Others . . . . .	102,655	4.4	118,376	3.4	56,415	1.1	56,415	2.2	—	—
Total . . . . .	<u>2,318,047</u>	<u>100.0</u>	<u>3,469,277</u>	<u>100.0</u>	<u>5,296,485</u>	<u>100.0</u>	<u>2,591,493</u>	<u>100.0</u>	<u>3,754,734</u>	<u>100.0</u>

Cost of sales represents primarily the costs we incur directly for our property development activities which include construction, decoration and design costs, land use rights cost, business taxes, and LAT. Property developments require substantial capital investment for land acquisition and construction and may take several months or years before generating positive cash flows.

The table below sets forth the components of our cost of properties sold, and the percentage of the cost of properties sold represented by each component, for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2004		2005		2006		2006		2007	
	Amount	Percentage of total cost of sales	Amount	Percentage of total cost of sales	Amount	Percentage of total cost of sales	Amount	Percentage of total cost of sales	Amount	Percentage of total cost of sales
	(RMB in thousands)	%	(RMB in thousands)	%	(RMB in thousands)	%	(RMB in thousands)	% (unaudited)	(RMB in thousands)	%
<i>Construction, decoration and design costs</i>										
Construction costs . . . . .	636,415	46.1	1,098,507	43.1	1,868,230	41.5	918,449	43.3	1,385,474	42.3
Outsourcing costs . . . . .	270,319	19.6	451,167	17.7	1,150,890	25.6	498,318	23.5	775,861	23.7
Fitting and decoration costs . . . . .	32,999	2.4	61,702	2.4	103,040	2.3	41,286	1.9	80,573	2.5
Design costs . . . . .	8,348	0.6	14,438	0.6	29,755	0.7	13,131	0.6	23,158	0.7
<b>Sub-total . . . . .</b>	<b>948,081</b>	<b>68.7</b>	<b>1,625,814</b>	<b>63.8</b>	<b>3,151,915</b>	<b>70.1</b>	<b>1,471,184</b>	<b>69.3</b>	<b>2,265,066</b>	<b>69.1</b>
<i>Land use rights cost . . . . .</i>	159,693	11.6	250,177	9.8	506,543	11.2	230,354	10.9	388,479	11.9
<i>Business taxes and levies . . . . .</i>	182,093	13.2	342,081	13.5	468,854	10.4	192,870	9.1	281,855	8.6
<i>LATs . . . . .</i>	90,542	6.5	329,339	12.9	373,904	8.3	226,008	10.7	340,284	10.4
<b>Total . . . . .</b>	<b>1,380,409</b>	<b>100.0</b>	<b>2,547,411</b>	<b>100.0</b>	<b>4,501,216</b>	<b>100.0</b>	<b>2,120,416</b>	<b>100.0</b>	<b>3,275,684</b>	<b>100.0</b>

Properties under development are stated at the lower of cost and net realizable value. Net realizable value takes into account the price ultimately expected to be realized and the anticipated costs to complete the properties. Completed properties remaining unsold at the end of each financial period are stated at the lower of cost and net realizable value.

*Construction, Decoration and Design Costs.* Construction, decoration and design costs comprised of self-construction costs, outsourcing costs, fitting and decoration costs and design costs. The price of raw materials, the level of complexity of the construction and design and the luxury level in the decoration are the principal factors affecting the average construction costs. Therefore, construction costs of a property project may fluctuate if the conditions of the site require more complex design and procedures or more expensive materials in order to provide the desired foundation support.

*Land Use Rights Cost.* During each of the three years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2007, substantially all of the land used in our projects or property developments, whether completed, under development or held for future development, was acquired after the promulgation of the PRC Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing for-Sale by the PRC Ministry of Land and Resources (the “New Land Acquisition Rules”).

In July 2002, the PRC government established new rules to determine the purchase price of all granted land through a competition process. See “—Key Factors Affecting Our Performance—Ability to acquire suitable land” below.

Under the New Land Acquisition Rules, after July 1, 2002, land use rights for the purposes of commercial use, tourism, entertainment and commodity building development in the PRC may only be granted by the government through a bidding process including a public tender, an auction or a listing-for-sale. In addition, under current regulations, grantees of land use rights are generally allowed to transfer the land use rights in secondary markets, except that if a transferor is a state-owned enterprise or a collectively-owned enterprise or the land use right is obtained by way of allocation, such land use rights must be transferred through a public bidding process. See “Business—Property Development—Land acquisition” for a description of the land acquisition procedures. Consequently, if we acquire land through a bidding process in the future, our cost of land use rights will consist primarily of a lump-sum purchase price payable to the government or the other transferors as determined by the bidding process. Under the New Land Acquisition Rules, the relevant government authority shall be responsible for establishing a floor price for the bidding process on the basis of land value appraisals and government industrial policies. If we acquire land use rights from other grantees in secondary markets in the future, our cost of land use rights will be the negotiated purchase prices payable to such grantees.

*Business Taxes.* Our PRC subsidiaries are subject to local business taxes. The current effective tax rate for each of our property development, construction and decoration, property management and hotel operation businesses is 5%, 3%, 5% and 5%, respectively.

*LAT.* Under PRC laws and regulations, our PRC subsidiaries engaging in property development are subject to LAT, which is collected by the local tax authorities. All income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as defined in the relevant tax laws, with certain exemptions available for the sale of ordinary standard residential houses if the appreciation value does not exceed 20% of the total deductible items as defined in the relevant tax laws. See “Regulation—H. Major Taxes Applicable to Real Estate Developers—(c) Land Appreciation Tax.” Sales of commercial properties are not eligible for this exemption. Whether a property qualifies for the ordinary standard residential houses exemption is determined by the local government taking into consideration the property’s plot ratio, aggregate GFA and sales price. Sales of villas and retail shops typically have higher appreciation values, and are generally subject to higher LAT rates, compared with less expensive properties. On December 28, 2006, the State Administration of Taxation issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (關於房地產開發企業土地增值稅清算管理有關問題的通知) which came into effect on February 1, 2007. Such notice provides further clarifications as to the settlement of LAT. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situations. We estimate and make provisions for the full amount of applicable LAT in accordance with the requirements set forth in the relevant PRC tax laws and regulations, but only pay a portion of such provisions each year as required by the local tax authorities under prevailing practice. For each of the three years ended December 31, 2004, 2005, 2006 and the six months ended June 30, 2007, we made a provision for LAT in the amount of RMB90.5 million, RMB329.3 million, RMB373.9 million and RMB340.3 million, respectively. For the same periods, we made LAT payments in the amount of RMB35.7 million, RMB82.1 million, RMB173.3 million and RMB116.0 million, respectively.

### **Selling and Marketing Costs**

Selling and marketing costs include advertising and promotion expenses relating to sales of properties, selling and marketing staff costs and other selling expenses.

### **Administrative Expenses**

Administrative expenses include primarily staff costs, amortization of land use rights relating to those lands that are not yet developed and those on which the properties have been completed but not yet sold, materials consumption cost, depreciation and real estate tax. The real estate tax was calculated on the basis of 1.2% of the taxable carrying value after a deduction of 10% to 30% allowance if the relevant properties are for self-use or 12% of the rental value if the properties are for rental purpose. The real estate tax amounted to RMB2.7 million,

RMB3.6 million, RMB8.1 million and RMB1.3 million, respectively, for each of the three years ended December 31, 2004, 2005, 2006 and the six months ended June 30, 2007.

### **Finance Costs**

Finance costs consist primarily of interest costs as a result of bank borrowings and borrowings from related parties. Our finance costs are charged to our combined and consolidated income statements in the accounting period in which they are incurred. Generally we do not capitalize our finance costs. Finance costs fluctuate from period to period due primarily to fluctuations in our level of outstanding indebtedness and the interest rates on our borrowings.

### **Income Tax Expense**

Income tax expense represents PRC enterprise income tax accrued by our operating subsidiaries. Because we are an exempted company in the Cayman Islands, we are not subject to Cayman Islands income tax. Our BVI companies holding our PRC subsidiaries are also not subject to BVI income tax as they are BVI business companies. Our PRC subsidiaries are subject to enterprise income tax at a rate of 33% (made up of 30% foreign investment enterprise income tax and 3% local income tax). In August 2006, upon the conversion of Giant Leap Construction Co., one of our PRC subsidiaries, to a foreign investment enterprise, the local tax authority granted it a tax holiday (which exempts corporate income tax for two years followed by a tax reduction of 50% for the subsequent three years), commencing from the first cumulative profit-making year, i.e. 2006, net of losses carried forward. Although on March 16, 2007, the National People's Congress enacted the New Enterprise Income Tax Law (新企業所得稅法) under which a uniform income tax rate of 25% is imposed on the taxable income of both domestic enterprises and foreign investment enterprises, and the original tax privilege available to foreign investment enterprises is cancelled, Giant Leap Construction Co. is able to continue to enjoy its tax holiday until it expires. Our effective income tax rate decreased from 38.9% in 2005 to 7.9% in 2006. The lower effective tax rate recorded in 2006 was primarily due to a one-time deferred tax credit written back upon the grant of tax holiday to Giant Leap Construction Co. in 2006. Our effective income tax rate was 23.2% for the six months ended June 30, 2007, primarily as a result of the tax holiday enjoyed by Giant Leap Construction. After such tax holiday expires, our effective income tax rate may increase, partially offset by the effect of lowering the generally applicable income tax rate from 33% to 25%, effective January 1, 2008.

### **Minority Interests**

Minority interests represent our profits or losses after taxation that are attributable to the majority shareholders of our non-wholly-owned subsidiaries during the three years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2007.

## **KEY FACTORS AFFECTING OUR PERFORMANCE**

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

### **Economic growth, speed of urbanization and demand for residential properties in China**

Economic growth, urbanization and higher standards of living in China have been the main driving forces behind the increasing market demand for residential properties. At the current stage of the PRC's economic development, while the property industry is regarded by the PRC government as one of China's pillar industries, the property industry is significantly dependent on the overall economic growth and the resultant consumer demand for residential properties. Developments in the private sector, urbanization and the resultant demand for residential properties in China have in the past increased the sales of our properties. These factors will continue to have a significant impact on our results of operations.

## **Regulatory measures in the real estate industry in China**

PRC government policies and measures on property development and related industries have a direct impact on our business and results of operations. From time to time, the PRC government adjusts its macroeconomic control policies to encourage or restrict development in the private property sector through measures relating to, among other things, land grants, pre-sales of properties, bank financing and taxation. In the past three years, the PRC government has taken various measures to control money supply, credit availability and fixed assets investment with a view to preventing China's economy from overheating and to achieving a more balanced and sustainable economic growth. In particular, the PRC government has taken measures to discourage speculation in the residential property market and has increased the supply of affordable housing. As a result of such measures, property developments and sales in certain regions of China grew at a slower pace in 2005 as compared with 2003 and 2004. PRC regulatory measures in the real estate industry will continue to impact our business and results of operations. See "Risk Factors—Risk Relating to the property sector in the PRC—The restrictive measures adopted from time to time by the PRC government to curtail the overheating of real estate market could slow down the industry's rate of growth," "Industry Overview—The Property Market in China—Real Estate Reforms" and "Regulation" for more details.

We are also highly susceptible to any regulations or measures adopted by PBOC that may restrict bank lending to enterprises, particularly to real estate developers. Moreover, a substantial portion of our purchasers depend on mortgage financing to purchase our properties. Regulations or measures adopted by the PRC government that are intended to restrict the ability of purchasers to obtain mortgages or that increase the costs of mortgage financing may decrease market demand for our properties and adversely affect our sales revenue.

## **Ability to acquire suitable land**

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

## **Pre-sales**

Pre-sales constitute the most important source of our operating cash inflow during our project development process. The PRC law allows us to pre-sell properties before their completion upon satisfaction of certain requirements and requires us to use the pre-sales proceeds to develop the projects pre-sold. The amount and timing of cash inflows from pre-sales are affected by a number of factors, including timing and other restrictions on pre-sales imposed by the PRC government, market demand for our properties subject to pre-sales and the number of properties we have available for pre-sale. Reduced cash flow from pre-sales of our properties will increase our reliance on external financing and will impact our ability to finance our continuing property developments.

## **Access to and cost of financing**

Bank borrowing is another important source of funding for our property developments. As of December 31, 2004, 2005, 2006 and June 30, 2007, our outstanding bank borrowings amounted to RMB2,109.0 million, RMB3,680.5 million, RMB4,016.7 million and RMB4,606.4 million, respectively. As commercial banks in China link the interest rates on their bank loans to benchmark lending rates published by PBOC, any increase in such benchmark lending rates will increase the interest costs related to our developments. Our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC government on bank lending for property development.

### **Timing of property development**

The number of property developments that a developer can undertake during any particular period is limited due to the substantial amount of capital required to fund land acquisitions and to pay the cost of construction as well as the limited supply of land. Property developments may take many months, or possibly years, before any pre-sale occurs. While pre-sales generate positive cash flow for us, no revenue sale is recognized in respect of such presold properties until the development is completed and the property is delivered to the purchaser. As market demand is not stable, revenue in a particular period depends on our ability to time our projects with the market demand. As a result, our results of operations may fluctuate with future market changes.

### **Price volatility of construction materials**

Our results of operations are affected by price volatility of construction materials such as steel and cement. The cost of construction materials constitutes the most important item in our construction costs. Although we use a centralized procurement to lower our purchase costs, any increase in construction materials may still increase our construction costs. If we cannot pass the increased costs on to our customers, our profitability will suffer.

### **Changes in product mix**

The prices and gross profit margins of our products vary by the types of properties we develop and sell. Our gross profit margin is affected by the proportion of sales revenue attributable to our higher gross margin products compared to sales revenue attributable to lower gross margin products. Typically our low-density units and larger apartments have commanded higher selling prices and gross profit margins than smaller apartment units. Historically, a substantial portion of the projects we have developed have had low plot ratios, permitting us to increase our sales of low density units and larger apartments. More recently, we have begun acquiring land with higher plot ratios, which will require us to increase the proportion of smaller apartments that we develop and sell. We believe that we have a diversified product portfolio, and we are currently developing strategies to address changes in product mix that may result from such higher plot ratios. If we are unable to successfully develop such strategies, our profit margins may decline as the proportion of our sales comprising smaller apartments increases.

### **LAT**

Our property developments are subject to LAT with respect to the appreciated value of the related land and improvements on such land. LAT applies to both domestic and foreign investors in real estate in China, irrespective of whether they are corporate entities or individual investors. We made LAT provisions of RMB90.5 million, RMB329.3 million, RMB373.9 million and RMB340.3 million for each of the three years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2007, respectively. We prepay LAT with reference to our pre-sales proceeds and the tax rates set out by local tax authorities. See “Risk Factor—Risk Relating to Our Business—The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations” and “—Certain Income Statement Items—Cost of Sales—LAT.”

### **Interim fluctuation of results of operations**

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 is limited due to the substantial amount of capital required for land acquisition, demolition, resettlement and construction, limited land supplies and lengthy development periods before positive cash flows may be generated. In addition, in recent years, we began to develop larger-scaled property developments and, as a result, we develop properties in multiple phases over the course of several years. Typically, the selling prices of properties in such larger-scaled property developments tend to increase as the overall development comes closer to completion, thus offering a more established residential community to the purchasers. Seasonal variations, as we disclosed in “Risk Factors—Risks Relating to Our

Business—We face risks relating to fluctuations of results of operations from period to period,” have in addition caused fluctuations in our interim revenue and profits, including quarterly and semi-annual results. As a result, our results of operations fluctuate and our interim results do not proportionally reflect our annual results.

## **CRITICAL ACCOUNTING POLICIES**

*Revenue Recognition.* Revenue comprises primarily the proceeds from property development, construction, decoration, property management and hotel operation after the elimination of intra-group transactions. Revenue from property sales is recognized when the construction has been completed, the properties have been delivered to the purchasers and the collectibility of related receivables is reasonably assured. Deposits and installments received on properties sold prior to the date of revenue recognition are included in our combined and consolidated balance sheets as advanced proceeds received from customers under current liabilities. Revenue arising from construction services is recognized in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenues arising from decoration service, hotel operation and property management are recognized in the accounting period in which the services are rendered.

*Land Use Rights Cost.* Land use rights cost typically comprises payments to government authorities for obtaining the right to occupy, use and develop land, certain fees for altering the intended use of land and resettlement costs. We recognize amortization charges for land use rights on a straight-line basis over the unexpired period of such rights and the remaining carrying amount is recognized as cost of sales when the relevant properties are sold. Land use rights for which we have obtained the land use rights certificates are recorded as “Land use rights” on our combined and consolidated balance sheet: those for which we have obtained the construction permits are recorded under “current assets” and the remainder are recorded under non-current assets. If we have not obtained the land use rights certificates for a piece of land in which we have contractual interest, the cost incurred in relation to such land is recorded as “Prepayment” under “Trade and other receivables”

*Properties under Development.* Properties under development are stated at the lower of cost and net realizable value. Net realizable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

*Completed Properties Held for Sale.* Completed properties remaining unsold at the end of each financial period are stated at the lower of cost and net realizable value. Net realizable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

In preparing our combined financial statements, we made certain estimates and assumptions about future events based on our experience. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities mainly include those related to property development activities.



## RESULTS OF OPERATIONS

The following discussion is based on our historical results of operations. The historical results of operations include the financial information of the companies now comprising the Group as a result of the Reorganization as if the current group structure had been in existence since January 1, 2004, or since their respective date of incorporation or establishment, whichever is later. Such results of operations may not be indicative of our future operating performance. Our combined results for each of the three years ended December 31, 2004, 2005 and 2006, and consolidated results for the six months ended June 30, 2007 are summarized as below.

	Year ended December 31,			Six months ended June 30,	
	2004	2005	2006	2006	2007
	(RMB in thousands)				
	(unaudited)				
Revenue	3,240,347	5,191,485	7,940,937	4,077,755	6,033,798
Cost of sales	(2,318,047)	(3,469,277)	(5,296,485)	(2,591,493)	(3,754,734)
<b>Gross profit</b>	<b>922,300</b>	<b>1,722,208</b>	<b>2,644,452</b>	<b>1,486,262</b>	<b>2,279,064</b>
Other gains—net	21,183	16,315	59,008	(41,795)	207,851
Selling and marketing costs	(112,301)	(213,521)	(214,497)	(116,078)	(157,559)
Administrative expenses	(233,880)	(273,681)	(361,504)	(162,350)	(291,138)
Other expenses	(63,700)	(65,808)	(45,884)	(37,346)	(10,518)
<b>Operating profit</b>	<b>533,602</b>	<b>1,185,513</b>	<b>2,081,575</b>	<b>1,128,693</b>	<b>2,027,700</b>
Finance costs	(125,444)	(220,981)	(264,776)	(138,810)	(148,723)
<b>Profit before income tax</b>	<b>408,158</b>	<b>964,532</b>	<b>1,816,799</b>	<b>989,883</b>	<b>1,878,977</b>
Income tax expense	(171,064)	(375,019)	(144,320)	(383,939)	(435,804)
<b>Profit for the year/period</b>	<b>237,094</b>	<b>589,513</b>	<b>1,672,479</b>	<b>605,944</b>	<b>1,443,173</b>
<b>Attributable to:</b>					
Owners	254,983	615,425	1,519,473	537,673	1,421,048
Minority interests	(17,889)	(25,912)	153,006	68,271	22,125
	<u>237,094</u>	<u>589,513</u>	<u>1,672,479</u>	<u>605,944</u>	<u>1,443,173</u>
Dividends	414,460	382,792	2,513,704	376,343	512,554

The following table sets forth, for the periods indicated, certain items derived from our combined and consolidated income statements as a percentage of revenue.

	Year ended December 31,			Six months ended June 30,	
	2004	2005	2006	2006	2007
	(percentage of revenue, %)				
	(unaudited)				
Revenue	100.0	100.0	100.0	100.0	100.0
Cost of sales	(71.5)	(66.8)	(66.7)	(63.6)	(62.2)
<b>Gross profit</b>	<b>28.5</b>	<b>33.2</b>	<b>33.3</b>	<b>36.4</b>	<b>37.8</b>
Other gains—net	0.7	0.3	0.7	(1.0)	3.4
Selling and marketing costs	(3.5)	(4.1)	(2.7)	(2.8)	(2.6)
Administrative expenses	(7.2)	(5.3)	(4.5)	(4.0)	(4.8)
Other expenses	(2.0)	(1.2)	(0.6)	(0.9)	(0.2)
<b>Operating profit</b>	<b>16.5</b>	<b>22.9</b>	<b>26.2</b>	<b>27.7</b>	<b>33.6</b>
Finance costs	(3.9)	(4.3)	(3.3)	(3.4)	(2.5)
<b>Profit before income tax</b>	<b>12.6</b>	<b>18.6</b>	<b>22.9</b>	<b>24.3</b>	<b>31.1</b>
Income tax expense	(5.3)	(7.2)	(1.8)	(9.4)	(7.2)
<b>Profit for the year/period</b>	<b>7.3</b>	<b>11.4</b>	<b>21.1</b>	<b>14.9</b>	<b>23.9</b>

## SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO SIX MONTHS ENDED JUNE 30, 2006

*Revenue.* Our revenue increased by 48.0% to RMB6,033.8 million in the first half of 2007 from RMB4,077.8 million for the corresponding period in 2006, primarily attributable to the increase in sales of property.

- Property development. Revenue generated from property development increased by 55.6% to RMB5,447.7 million for the six months ended June 30, 2007 from approximately RMB3,501.7 million for the corresponding period in 2006, primarily attributable to a 44.2% increase in total GFA sold to approximately 935,342 sq.m. in the first half of 2007 from approximately 648,614 sq.m. for the corresponding period in 2006. The recognized average selling price of property increased to RMB5,824 per sq.m. in the first half of 2007 from RMB5,371 per sq.m. for the corresponding period in 2006.

The increase in total GFA sold primarily reflected more favorable market conditions in our target markets, where demand for residential properties of high quality increased. The increase in total GFA of residential properties sold resulted primarily from the construction completion and delivery of properties to purchasers, including Country Garden Phoenix City, Nanhai Country Garden and Shunde Country Garden.

The following table sets forth the revenue generated from each project and the percentage of the total revenue it represented in the six months ended June 30, 2007 and 2006, respectively.

Project	Six months ended June 30, 2007		Six months ended June 30, 2006	
	Revenue (RMB in thousands)	Percentage of revenue %	Revenue (RMB in thousands) (unaudited)	Percentage of revenue %
Huanan Country Garden—Phase One to Five and Phase Seven . . . . .	367,851	6.8	291	—
Huanan Country Garden—Phase Six . . . . .	294,912	5.4	652,128	18.6
Country Garden Phoenix City . . . . .	968,991	17.7	1,236,063	35.4
Licheng Country Garden . . . . .	571,041	10.5	155,106	4.4
Shawan Country Garden . . . . .	—	—	4,534	0.1
Country Garden East Court . . . . .	3,832	0.1	26,735	0.8
Nansha Country Garden . . . . .	163,381	3.0	—	—
Holiday Islands—Huadu . . . . .	124,501	2.3	—	—
Shunde Country Garden—including Country Garden West Court . . . . .	666,623	12.2	495,002	14.1
Peninsula Country Garden . . . . .	447,722	8.2	362,560	10.4
Jun'an Country Garden . . . . .	—	—	4,006	0.1
Gaoming Country Garden . . . . .	46,803	0.9	218,676	6.2
Wuyi Country Garden . . . . .	390,814	7.2	107,803	3.1
Heshan Country Garden . . . . .	324,045	5.9	238,149	6.8
Yangdong Country Garden . . . . .	185,084	3.4	—	—
Chencun Country Garden <sup>(1)</sup> (陳村碧桂園) . . . . .	—	—	676	—
Nanhai Country Garden . . . . .	736,528	13.5	—	—
Xinhui Country Garden . . . . .	155,559	2.9	—	—
Total . . . . .	<u>5,447,687</u>	<u>100.0</u>	<u>3,501,729</u>	<u>100.0</u>

*Note:*

(1) Chencun Country Garden was transferred to independent third parties in June 2006.

- Construction and decoration. Revenue generated from construction and decoration increased by 10.3% to RMB380.9 million for the six months ended June 30, 2007 from RMB345.3 million for the corresponding

period in 2006, primarily attributable to an increase in the volume of construction and decoration services rendered to Qingyuan Country Garden Property Development Co., Ltd., a related party.

- Property management. Revenue generated from property management increased by 39.1% to RMB105.4 million for the six months ended June 30, 2007 from RMB75.8 million for the corresponding period in 2006, primarily attributable to an increase in the cumulative GFA under management resulting from the construction completion and delivery of properties such as Nanhai Country Garden, Nansha Country Garden and Country Garden Phoenix City
- Hotel operation. Revenue generated from hotel operation increased by 4.2% to RMB99.8 million for the six months ended June 30, 2007 from RMB95.8 million for the corresponding period in 2006, primarily attributable to an increase in revenues of Heshan Country Garden Phoenix Hotel and Wuyi Country Garden Phoenix Hotel, the award of Qingyuan Country Garden Holiday Islands Hotel with a five-star rating standard on May 14, 2007 and the opening of Yangjiang Country Garden Phoenix Hotel in May 2007 which is operated according to a five-star rating standard.

*Cost of sales.* Cost of sales increased by 44.9% to RMB3,754.7 million for the six months ended June 30, 2007 from RMB2,591.5 million for the corresponding period in 2006, primarily attributable to a 54.0% increase in construction, decoration and design costs to RMB2,265.1 million for the six months ended June 30, 2007 from RMB1,471.2 million for the corresponding period in 2006 and, to a lesser extent, to the increases in land use rights cost, business taxes and LAT. The increase in construction, decoration and design costs was in line with the increase in total sales of our properties.

*Gross profit.* Gross profit increased by 53.3% to RMB2,279.1 million for the six months ended June 30, 2007 from RMB1,486.3 million for the corresponding period in 2006, primarily attributable to the significant increase in the total GFA of the properties sold. Our gross margin for the six months ended June 30, 2007 increased to 37.8% from 36.4% for the corresponding period in 2006, primarily attributable to the increase in the average selling price to RMB5,824 per sq.m. for the six months ended June 30, 2007 from RMB5,371 per sq.m. for the corresponding period in 2006.

*Other gains/(losses)-net.* We recorded other gains of RMB207.9 million for the six months ended June 30, 2007 as compared to other losses of RMB41.8 million for the corresponding period in 2006. The gains were mainly attributable to the substantial interest income earned on application monies of approximately RMB270.0 million for share subscriptions in connection with our IPO in April 2007 and the interest income on other bank deposits of RMB85.2 million. This increase in other gains was offset by exchange losses, net, of RMB167.0 million mainly arising from the H.K. dollar-denominated proceeds received upon our IPO pending conversion into Renminbi during the period.

*Selling and marketing costs.* Selling and marketing costs increased by 35.7% to RMB157.6 million for the six months ended June 30, 2007 from RMB116.1 million for the corresponding period in 2006, which was primarily attributable to increased brand building efforts in anticipation of us becoming a public company. Our advertising expenses increased by 49.3% to RMB87.8 million for the six months ended June 30, 2007 from RMB58.8 million for the corresponding period in 2006. In addition, pre-sales of new projects (eg. Zengcheng Country Garden, Huanan Country Garden and Heshan Country Garden) in the first half of 2007 also gave rise to the higher selling and marketing costs for the period.

*Administrative expenses.* Administrative expenses increased by 79.2% to RMB291.1 million for the six months ended June 30, 2007 from RMB162.4 million for the corresponding period in 2006, primarily attributable to the recruitment of a large number of staff as our operations have expanded. Consequently, salary for our employees increased substantially by 47.9% to RMB131.0 million for the six months ended June 30, 2007 from RMB88.6 million for the corresponding period in 2006. In addition, a portion of the listing expenses in connection with our IPO was recognized as administrative expenses, which contributed to the increase in administrative expenses.

*Other expenses.* Other expenses decreased by 71.9% to RMB10.5 million for the six months ended June 30, 2007 from RMB37.4 million for the corresponding period in 2006. Other expenses were relatively high for the six months ended June 30, 2006 due to a surcharge in relation to the late payment of the enterprise income tax in 2002, 2003, and 2004 of RMB33.4 million.

*Finance costs.* Finance costs increased by 7.1% to RMB148.7 million for the six months ended June 30, 2007 from RMB138.8 million for the corresponding period in 2006, mainly reflecting the increase in the total interest expenses mainly resulting from several increases of bank loan interest rates between January 1, 2006 and June 30, 2007.

*Income Tax Expense.* Income tax expense increased by 13.5% to RMB435.8 million for the six months ended June 30, 2007 from RMB383.9 million for the corresponding period in 2006, primarily attributable to the increase of profit before taxation by 89.8% to RMB1,879.0 million for the six months ended June 30, 2007 from RMB989.9 million for the corresponding period in 2006. The effective tax rate for the six months ended June 30, 2007 was 23.2% compared to 38.8% for the corresponding period in 2006 primarily due to the tax holiday enjoyed by Giant Leap Construction Co.

*Profit for the period.* Profit for the six months ended June 30, 2007 increased by 138.2% to RMB1,443.2 million from RMB605.9 million for the corresponding period in 2006. Our net profit margin increased to 23.9% for the six months ended June 30, 2007 from 14.9% for the corresponding period in 2006, as a result of the cumulative effect of the foregoing factors.

*Minority Interests.* Profits attributable to minority shareholders of our subsidiaries decreased to RMB22.1 million for the six months ended June 30, 2007 from RMB68.3 million for the corresponding period in 2006, primarily attributable to a decrease in sales of properties in Huanan Country Garden (Phase Six) as most of the properties in the project were completed and delivered in 2006.

## **2006 COMPARED TO 2005**

*Revenue.* Our revenue increased by 53.0% to RMB7,940.9 million in 2006 from RMB5,191.5 million in 2005, primarily attributable to the increase in sales of property.

- *Property Development.* Revenue generated from property development increased by 70.3% to RMB6,961.4 million in 2006 from RMB4,086.7 million in 2005, primarily attributable to a 80.3% increase in total GFA of residential properties sold to approximately 1,318,397 sq.m. in 2006 from approximately 731,173 sq.m. in 2005.

The increase in total GFA sold primarily reflected more favorable market conditions in our target markets, where demand for residential properties of high quality increased. The increase in total GFA of residential properties sold resulted primarily from the construction completion and delivery of properties to purchasers, including Huanan Country Garden—Phase Six, Country Garden Phoenix City, Gaoming Country Garden and Licheng Country Garden.

The following table sets forth the revenue generated from each project and the percentage of the total revenue it represented in 2006 and 2005, respectively.

Project	2006		2005	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue
	(RMB in thousands)	%	(RMB in thousands)	%
Huanan Country Garden—Phase One to Five and Phase Seven	3,912	0.1	26,754	0.6
Huanan Country Garden—Phase Six	1,404,084	20.2	—	—
Country Garden Phoenix City	2,036,523	29.2	1,697,038	41.5
Licheng Country Garden	425,513	6.1	12,173	0.3
Shawan Country Garden	3,597	0.1	—	—
Country Garden East Court	28,911	0.4	71,680	1.8
Nansha Country Garden	71,755	1.0	—	—
Holiday Islands—Huadu	101,322	1.5	—	—
Shunde Country Garden—including Country Garden West Court	816,696	11.7	742,210	18.2
Peninsula Country Garden	609,725	8.7	643,715	15.8
Jun'an Country Garden	4,006	0.1	45,085	1.1
Gaoming Country Garden	420,057	6.0	125,462	3.1
Wuyi Country Garden	428,933	6.2	351,951	8.6
Heshan Country Garden	332,672	4.8	369,953	9.0
Yangdong Country Garden	144,513	2.1	—	—
Chencun Country Garden <sup>(1)</sup> (陳村碧桂園)	3,369	—	658	—
Shanghai Moon River <sup>(1)</sup> (上海月亮河)	125,777	1.8	—	—
<b>Total</b>	<b>6,961,365</b>	<b>100.0</b>	<b>4,086,679</b>	<b>100.0</b>

*Note:*

(1) Chencun Country Garden and Shanghai Moon River have been transferred to independent third parties in May 2006 and June 2006, respectively.

- **Construction and Decoration.** Revenue generated from our construction and decoration decreased by 17.0% to RMB556.1 million in 2006 from RMB670.4 million in 2005, primarily attributable to a decrease in the volume of construction and decoration services rendered to a related party.
- **Property Management.** Revenue generated from our property management increased by 26.7% to RMB170.4 million in 2006 from RMB134.5 million in 2005, primarily attributable to an increase in the cumulative GFA under our management resulting from the construction completion and delivery of properties such as Country Garden Phoenix City and Shunde Country Garden (including Country Garden West Court).
- **Hotel Operation.** Revenue generated from our hotel operation increased by 4.7% to RMB194.0 million in 2006 from RMB185.3 million in 2005, primarily attributable to the signing of a long-term lease agreement between Honda Motor Co., Ltd., a Japanese company, and Zengcheng Country Garden Phoenix City Hotel Co., Ltd. and the increase in corporate clients for Holiday Islands Hotel Co.

**Cost of Sales.** Cost of sales increased by 52.7% to RMB5,296.5 million in 2006 from RMB3,469.3 million in 2005, primarily attributable to a 93.9% increase of construction, decoration and design costs to RMB3,151.9 million in 2006 from RMB1,625.8 million in 2005 and, to a lesser extent, to the increases in land use rights cost, business taxes and LAT. The increase of construction, decoration and design costs was in line with the increase in total sales of our properties.

**Gross Profit.** Gross profit increased by 53.6% to RMB2,644.5 million in 2006 from RMB1,722.2 million in 2005, primarily attributable to the significant increase of the total GFA of the properties we sold. Our gross profit margin increased to 33.3% from 33.2%, primarily attributable to the increase of the sales price of townhouses

and apartment buildings to RMB4,491.9 per sq.m. and RMB3,500.8 per sq.m., respectively, in 2006 from RMB3,911.9 per sq.m. and RMB2,959.1 per sq.m., respectively, in 2005.

*Selling and Marketing Costs.* Our selling and marketing costs increased by 0.5% to RMB214.5 million in 2006 from RMB213.5 million in 2005, primarily attributable to a 60.4% increase in office expenses to RMB26.3 million in 2006 from RMB16.4 million in 2005 due to the increase in office material consumption resulting from commencement of sales of several projects. The increase in selling and marketing costs was also attributable to an increase in total salaries paid and benefits to our selling and marketing personnel to RMB68.2 million in 2006 from RMB48.4 million in 2005 resulting from the increase of headcount to support the increase in the number of projects in 2006, as well as an increase in supervision fees of the escrow accounts resulting from the increase in pre-sale proceeds as we sold more properties in 2006. Such increase was offset by a decrease in advertising expenses to RMB83.7 million in 2006 from RMB120.7 million in 2005.

*Administrative Expenses.* Administrative expenses increased by 32.1% to RMB361.5 million in 2006 from RMB273.7 million in 2005, primarily attributable to an increase in total salaries and benefits for our administrative personnel to RMB153.9 million in 2006 from RMB95.8 million in 2005, and an increase in the training costs and education subsidies for them, as a result of increased headcount due to our business expansion. The increase of administrative expenses was also attributable to an increase in real estate tax to RMB8.1 million in 2006 from RMB3.6 million in 2005 resulting from the completion of construction of Zengcheng Phoenix hotel which was then subject to real estate tax.

*Other Expenses.* Other expenses decreased by 30.2% to RMB45.9 million in 2006 from RMB65.8 million in 2005, primarily attributable to the decrease in donations by us. Such decrease was partly offset by the surcharge of RMB33.4 million paid to the tax bureau in 2006 resulting from the late payment of enterprise income tax incurred in 2002, 2003 and 2004. The late payment of enterprise income tax resulted from a different interpretation of the relevant tax policies between us and the local tax authority. The late payment surcharge was levied as compensation to the relevant local tax authorities. As of May 2006, we had paid in full the outstanding tax and late payment surcharge.

*Finance Costs.* Finance costs increased by 19.8% to RMB264.8 million in 2006 from RMB221.0 million in 2005, mainly reflecting the increase in the total interest expenses due to the increase of the total amount of our outstanding borrowings.

*Income Tax Expense.* Income tax expenses decreased by 61.5% to RMB144.3 million in 2006 from RMB375.0 million in 2005, primarily attributable to the tax exemption enjoyed by our subsidiary, Giant Leap Construction Co. In August 2006, the tax authority granted Giant Leap Construction Co. a tax holiday whereby it would be exempt from tax for two years and enjoy a 50% tax reduction for another three years. The tax holiday commenced from the first cumulative profit-making year net of losses carried forward. As a result, there was a reversal of deferred tax liabilities brought forward and a reduction of current income tax expense during the year ended 2006 compared with the year ended 2005.

*Profit for the year.* Profit for the year increased by 183.7% to RMB1,672.5 million in 2006 from RMB589.5 million in 2005. Our net profit margin increased to 21.1% in 2006 from 11.4% in 2005, as a result of the cumulative effect of the foregoing factors.

*Minority Interests.* Profits attributable to minority shareholders of our subsidiaries were RMB153.0 million in 2006 as compared to losses attributable to minority shareholders of our subsidiaries of RMB25.9 million in 2005, primarily attributable to the recognition of revenue from the sales of Huanan Country Garden (Phase Six) by Huanan Country Garden Co.

## 2005 COMPARED TO 2004

*Revenue.* Our revenue increased by 60.2% to RMB5,191.5 million in 2005 from RMB3,240.3 million in 2004, primarily attributable to the increase in sale of properties. The increase was slightly offset by the decrease of revenue generated from our construction and decoration related services.

- **Property Development.** Revenue generated from property development increased by 90.0% to RMB4,086.7 million in 2005 from RMB2,150.4 million in 2004, primarily attributable to a 71.0% increase in total GFA sold to approximately 731,173 sq.m. in 2005 from approximately 427,530 sq.m. in 2004 and to a 11.1% increase in the average realized sales price per sq.m. of our properties.

The increase in total GFA sold was mainly due to the increase in the delivery of GFA to purchasers upon the completion of construction of certain existing projects, including Country Garden Phoenix City, Peninsula Country Garden, Shunde Country Garden (including Country Garden West Court). The increase was also attributable to the recognition of sales of several new projects, including Gaoming Country Garden, Heshan Country Garden and Wuyi Country Garden in 2005, as these projects were still under development in 2004. The increase in total GFA sold also reflected the increased acceptance of our properties by purchasers resulting from our strengthened brand name and the appeal of the amenities, such as schools and hotels, established on our projects. The increase in average realized sales price per sq.m. resulted primarily from a change in our product mix as villas and retail shops, which carried higher sales prices per sq.m. than apartment buildings, accounted for an increased portion of our revenue in 2005. This was partially offset by a decrease in average realized sales price per sq.m. for apartment buildings due to the lower average sales price per sq.m. of the apartment buildings in the new projects.

The following table sets forth the revenue generated from each project and the percentage it represented of the total revenue from property development in 2005 and 2004, respectively.

Project	2005		2004	
	Revenue (RMB in thousands)	Percentage of revenue %	Revenue (RMB in thousands)	Percentage of revenue %
Huanan Country Garden—Phase One to Five and Phase Seven . . . . .	26,754	0.6	286,028	13.3
Country Garden Phoenix City . . . . .	1,697,038	41.5	1,077,115	50.1
Licheng Country Garden . . . . .	12,173	0.3	94,516	4.4
Shawan Country Garden . . . . .	—	—	12,567	0.6
Country Garden East Court . . . . .	71,680	1.8	37,703	1.8
Shunde Country Garden—including Country Garden West Court . . . . .	742,210	18.2	452,510	21.0
Peninsula Country Garden . . . . .	643,715	15.8	134,661	6.3
Jun'an Country Garden . . . . .	45,085	1.1	48,628	2.2
Gaoming Country Garden . . . . .	125,462	3.1	—	—
Wuyi Country Garden . . . . .	351,951	8.6	—	—
Heshan Country Garden . . . . .	369,953	9.0	—	—
Chencun Country Garden . . . . .	658	—	6,686	0.3
Total . . . . .	<u>4,086,679</u>	<u>100.0</u>	<u>2,150,414</u>	<u>100.0</u>

- **Construction and Decoration.** Revenue generated from our construction and decoration decreased by 11.3% to RMB670.4 million in 2005 from RMB756.2 million in 2004, primarily attributable to the decrease in the volume of construction services rendered to Floral City Country Garden project in 2005.
- **Property Management.** Revenue generated from our property management increased by 16.6% to RMB134.5 million in 2005 from RMB115.4 million in 2004, primarily attributable to an increase in the number of properties and the cumulative GFA which we managed.

- **Hotel Operation.** Revenue generated from our hotel operation increased by 50.0% to RMB185.3 million in 2005 from RMB123.5 million in 2004, primarily attributable to the commencement of operation and our management of Country Garden Holiday Peninsula Hotel and Heshan Country Garden Phoenix Hotel in late 2004 and in 2005, respectively; and the income from the commencement of full operation of Zengcheng Phoenix Hotel in 2005.

*Cost of Sales.* Cost of sales increased by 49.7% to RMB3,469.3 million in 2005 from RMB2,318.0 million in 2004, primarily attributable to a 71.5% increase of construction, decoration and design costs to RMB1,625.8 million in 2005 from RMB948.1 million in 2004 and, to a lesser extent, to the increases in LAT and land use rights cost. The increase of construction, decoration and design costs was primarily due to an increase in total sales of our properties and, in particular, our villas and townhouses for which the construction costs tend to be higher. LAT increased by 263.9% to RMB329.3 million in 2005 from RMB90.5 million in 2004, primarily due to the moderate increase in unit selling price and the significant increase in the sales of our properties, in particular, our increased portion of sales accounted for by sales of our villas, townhouses and retail shops, which are typically taxed at higher rates and not subject to the ordinary standard residential houses exemption, in Shunde Country Garden (including Country Garden West Court), Peninsula Country Garden and Country Garden Phoenix City.

*Gross Profit.* Gross profit increased by 86.7% to RMB1,722.2 million in 2005 from RMB922.3 million in 2004, primarily attributable to an increase in sales of our properties. Our gross profit margin increased to 33.2% in 2005 from 28.5% in 2004, primarily due to the increase of sales of villas and retail shops as a percentage of our revenue as sales of villas and retail shops are more profitable as compared to sales of our apartment buildings, and to a lesser extent, due to the improving profitability of property management and hotel operation as these segments enjoyed more economies of scale.

*Selling and Marketing Costs.* Our selling and marketing costs increased by 90.1% to RMB213.5 million in 2005 from RMB112.3 million in 2004. This was primarily attributable to a 142.4% increase in advertising fees to RMB120.7 million in 2005 from RMB49.8 million in 2004 and an increase in our general selling and marketing expenses as we promoted and sold more properties in 2005. The increase in selling and marketing costs was also attributable, to a lesser extent, to an increase in total salaries paid to our selling and marketing personnel resulting from the increase of headcount to support the increase in the number of projects we marketed in 2005.

*Administrative Expenses.* Administrative expenses increased by 17.0% to RMB273.7 million in 2005 from RMB233.9 million in 2004, primarily attributable to an increase of total salaries and benefits for our administrative personnel to RMB95.8 million in 2005 from RMB73.2 million in 2004 resulting, among other things, from the increased headcount. The headcount increased primarily due to the increase in number of projects we marketed and pre-sale activities during 2005.

*Other Expenses.* Other expenses increased by 3.3% to RMB65.8 million in 2005 from RMB63.7 million in 2004, primarily attributable to an increase in our donations.

*Finance Costs.* Finance costs increased by 76.2% to RMB221.0 million in 2005 from RMB125.4 million in 2004, mainly reflecting the increase in bank borrowings.

*Income Tax Expense.* Income tax expense increased by 119.2% to RMB375.0 million in 2005 from RMB171.1 million in 2004, primarily attributable to the increase of profit before taxation by 136.3% to RMB964.5 million in 2005 from RMB408.2 million in 2004. The effective tax rate for 2005 was 38.9% compared to 41.9% for 2004.

*Profit for the year.* Profit for the year increased by 148.6% to RMB589.5 million in 2005 from RMB237.1 million in 2004. Our net profit margin increased to 11.4% in 2005 from 7.3% in 2004, as a result of the cumulative effect of the foregoing factors.



*Minority Interests.* Losses attributable minority shareholders of our subsidiaries increased to RMB25.9 million in 2005 from RMB17.9 million in 2004, primarily attributable to the proportionate decrease in profitability of our non-wholly-owned subsidiaries.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows

The following table presents selected cash flow data from our combined cash flow statements for each of the three years ended December 31, 2004, 2005 and 2006 and consolidated cash flow statements for the six months ended June 30, 2007.

	Year ended December 31,			Six months ended June 30,	
	2004	2005	2006	2006	2007
	(RMB in thousands)			(unaudited)	
Net cash (outflow)/inflow from operating activities	(885,548)	124,992	3,454,941	1,726,439	339,367
Net cash (used in)/generated from investing activities	(499,768)	(955,848)	499,486	752,434	169,368
Net cash generated from/(used in) financing activities	1,238,655	1,109,236	(3,249,445)	(1,112,493)	14,073,094
Cash and cash equivalents at the end of the period	546,327	824,707	1,529,689	2,191,088	16,111,518

### *Cash flows from operating activities*

Net cash inflow from operating activities decreased by 80.3% to RMB339.4 million for the six months ended June 30, 2007 from RMB1,726.4 million for the six months ended June 30, 2006, which was primarily due to payments for land acquisitions in the six months ended June 30, 2007.

Net cash inflow from operating activities increased by 2,663.9% to RMB3,454.9 million in 2006 from RMB125.0 million in 2005, which was primarily due to the increase in sales of our properties. Such increase was primarily attributable to an increase in movement of advanced proceeds received from customers to RMB3,812.6 million in 2006 from RMB1,850.4 million in 2005, in the form of deposits and pre-paid purchase price of pre-sold properties.

Net cash inflow from operating activities increased to RMB125.0 million in 2005 from an outflow of RMB885.5 million in 2004, which was primarily the result of a significant increase in profit from operating activities. The increase in profit was mainly attributable to the increase of the sales of our properties. The increase in net cash inflow from operating activities in 2005 also reflected an increase in movement of advanced proceeds received from customers of RMB717.8 million.

### *Cash flows from investing activities*

Net cash inflow from investing activities decreased by 77.5% to RMB169.4 million for the six months ended June 30, 2007 from RMB752.4 million for the six months ended June 30, 2006, which was primarily due to decrease in repayments of cash advances from related parties to RMB638.8 million for the six months ended June 30, 2007 from RMB1,021.6 million for the corresponding period in 2006.

Net cash inflow from investing activities was RMB499.5 million in 2006, as compared to net cash outflow from investing activities of RMB955.8 million in 2005. This was primarily attributable to an increase in

repayments of cash advances from related parties to RMB1,021.6 million in 2006 from RMB899.4 million in 2005 and a decrease in the cash advances made to our related parties to RMB247.6 million in 2006 from RMB1,579.4 million in 2005.

Net cash outflow from investing activities increased by 91.2% to RMB955.8 million in 2005 from RMB499.8 million in 2004, primarily due to the increase in cash advances made to our related parties to RMB1,579.4 million in 2005 from RMB335.1 million in 2004.

### ***Cash flows from financing activities***

Net cash inflow from financing activities for the six months ended June 30, 2007 was RMB14,073.1 million as compared to net cash outflow from financing activities for the six months ended June 30, 2006, primarily attributable to proceeds from our IPO in April 2007.

Net cash outflow from financing activities was RMB3,249.4 million in 2006, as compared to net cash inflow from financing activities of RMB1,109.2 million in 2005, due to an increase of repayments of borrowings to RMB3,690.1 million in 2006 from RMB1,466.5 million in 2005 and an increase of dividends paid to our shareholders to RMB2,513.7 million in 2006 from RMB382.8 million in 2005.

Net cash inflow from financing activities decreased by 10.5% to RMB1,109.2 million in 2005 from RMB1,238.7 million in 2004, primarily due to an increase in our repayments of cash advances to related parties to RMB629.8 million in 2005 from RMB71.3 million in 2004.

### **Capital Resources**

Property developments require substantial capital investment for land acquisition and construction and may take many months or years before positive cashflows can be generated. To date we have funded our growth principally from internal funds, borrowings from banks, proceeds from sales and pre-sales of our developed properties and proceeds from capital markets offerings, such as our IPO in April 2007. Our financing methods vary from project to project and are subject to limitations imposed by PRC regulations and monetary policies.

Since June 2003 commercial banks have been prohibited under PBOC guidelines from advancing loans to fund the payment of land premium. In addition, the Bureau of Land Resources and Housing Management of Guangzhou Municipality indicated in 2001 that it intended to abolish the installment payment method in connection with the transfer of state-owned land use rights after December 31, 2003. As a result, property developers may only use their own funds to pay for land premium and property developers in Guangzhou may be required to make a lump sum payment for the land premium within the period stipulated in the land grant contracts.

Prior to June 2003, we financed our payments of land premium through a combination of borrowings from banks and proceeds from the sales and pre-sales of properties. Since June 2003, we have funded all of our payments of land premium with proceeds from the sales and pre-sales of properties and sources other than bank borrowings. We plan to use proceeds from the sales and pre-sales of properties, proceeds from capital market financing and internal funds to finance our future payments of land premium.

In addition to restrictions on land premium financing, the PRC government also encourages property developers to use internal funds to develop their property projects. Under guidelines jointly issued by the Ministry of Construction and other PRC government authorities in May 2006, commercial banks in China are not permitted to lend funds to property developers with an internal capital ratio, calculated by dividing the internal funds available by the total capital required for the project, of less than 35%, an increase of five percentage points from 30% as previously required. Such increase in internal capital ratio will increase the internally sourced capital requirement for property developers, including ourselves. We typically use internal funds and project

loans from PRC banks to finance the initial construction costs for our property developments. Additional cash is generated from pre-sales of properties when they meet the requirements of pre-sale under the national and local regulations. Such proceeds from pre-sales, together with the project loans, are the major sources of fund for the construction of our projects.

We intend to continue to fund our future development and debt servicing from existing financial resources and cash generated from operations. We may also raise additional funds through debt or equity offerings or sales or other dispositions of assets in the future to finance all or a portion of our future development, for debt servicing or for other purposes. Our ability to obtain adequate financing to satisfy our debt service requirements may be limited by our financial condition and results of operations and the liquidity of international and domestic financial markets. Any failure by us to achieve timely rollover, extension or refinancing of our short-term debt may result in our inability to meet our obligations in connection with debt service, accounts payable and/or other liabilities when they become due and payable. See “Risk Factors—Risks Relating to Our Business—We may not have adequate resources to fund land acquisitions or property developments, or to service our financing obligations.”

### Borrowings

The following table sets forth our borrowings as of December 31, 2004, 2005, 2006 and June 30, 2007:

	As of December 31,			As of June 30,
	2004	2005	2006	2007
	(RMB in thousands)			(unaudited)
<b>Borrowings included in non-current liabilities:</b>				
Bank borrowings . . . . .	1,709,004	3,410,505	3,876,700	4,606,400
Borrowings from related parties . . . . .	505,720	644,205	—	—
	2,214,724	4,054,710	3,876,700	4,606,400
Less: current portion of non-current borrowings . . . . .	(115,000)	(331,500)	(1,018,500)	(1,270,490)
Non-current borrowings . . . . .	2,099,724	3,723,210	2,858,200	3,335,910
<b>Borrowings included in current liabilities:</b>				
Bank borrowings . . . . .	400,000	270,000	140,000	—
Borrowings from related parties . . . . .	—	—	64,592	—
Current portion of non-current borrowings . . . . .	115,000	331,500	1,018,500	1,270,490
Current borrowings . . . . .	515,000	601,500	1,223,092	1,270,490
Total . . . . .	2,614,724	4,324,710	4,081,292	4,606,400

Our borrowings as of December 31, 2004, 2005 and 2006 and June 30, 2007 bore a weighted average effective interest of 6.185%, 6.270%, 6.222% and 6.422%, respectively. As of June 30, 2007, all of our borrowings were secured by land use rights and properties that we owned and were guaranteed by our subsidiaries. As of December 31, 2004, 2005 and 2006 and June 30, 2007, our bank borrowings secured by land use rights and properties of our related parties were RMB230.0 million, RMB677.0 million, RMB80.0 million and nil, respectively. In addition, as of December 31, 2004, 2005 and 2006 and June 30, 2007, our bank borrowings guaranteed by our related parties were RMB250.0 million, RMB300.0 million, nil and nil, respectively.

On October 15, 2007, we entered into a facility agreement as borrower in connection with a six months non-revolving term loan facility with the Bank of China (Hong Kong) Limited, as lender, for an aggregate principal amount up to HK\$1,500,000,000 for the purpose of financing our working capital. We intend to draw the entire principal amount available under this facility in the near future.

The maturity of our borrowings included in non-current liabilities as of December 31, 2004, 2005 and 2006 and June 30, 2007 is as follows:

	December 31,			June 30,
	2004	2005	2006	2007
	(RMB in thousands)			(unaudited)
Between 1 and 2 years .....	771,000	2,306,000	2,044,400	2,200,910
Between 2 and 5 years .....	1,328,724	1,417,210	813,800	1,135,000
Beyond 5 years .....	—	—	—	—
	2,099,724	3,723,210	2,858,200	3,335,910

### Restricted Cash

Pursuant to relevant regulations, certain of our project companies are required to deposit a portion of proceeds from the pre-sales of properties into specific bank accounts. Before the completion of the pre-sold properties, the proceeds deposited in the escrow accounts may only be used for the restricted purposes of purchasing construction materials, equipment, making interim construction payments and paying taxes, with the prior approval of the relevant local authorities. As of December 31, 2004, 2005 and 2006 and June 30, 2007, the outstanding amount of pre-sale proceeds so deposited was approximately RMB130.0 million, RMB135.8 million, RMB454.7 million and RMB759.1 million, respectively. See “—Certain Income Statement Items—Revenue,” and “Business—Overview of Our Property Development—Pre-sales.”

### Contingent Liabilities

As of June 30, 2007, we provided guarantees of approximately RMB6,918.6 million to PRC banks in respect of the mortgaged loans provided by the banks to purchasers of our developed properties. The majority of the guarantees are short-term guarantees which are discharged upon the earlier of the issuance of the individual property ownership certificate to the owner of the property or the certificate of other rights of property to the mortgage bank which will generally be available within three months after we deliver the relevant property to the purchasers, or upon the full settlement of the mortgaged loans by the purchaser. Certain of these guarantees are long-term guarantees that we provided prior to 2003 which are discharged two years from the day the mortgaged loans become due. We also provided guarantees to PRC banks in respect of the bank loans provided by the banks to one of our related companies which were released by the relevant banks by the end of 2006. As of June 30, 2007, we had no guarantees provided in respect of such bank loans.

## Capital commitments

As of June 30, 2007, our capital commitments in connection with our property development activities amounted to RMB3,112.5 million, primarily arising from contracted construction fees or other capital commitments for future property developments. We expect to fund such capital commitments principally from the pre-sale proceeds of our properties and partly from bank borrowings. The following table shows a breakdown of our capital commitments with respect to our property developments as of June 30, 2007:

	<u>Amount</u> (RMB in thousands)	<u>Percentage</u> %
<b>Contracted but not provided for</b>		
Property, plant and equipment . . . . .	7,182	0.2
Property development expenditure . . . . .	3,105,367	99.8
	<u>3,112,549</u>	<u>100.0</u>

For more details about our capital commitments, see Note 21 to our condensed consolidated financial statements as of and for the six months ended June 30, 2007.

## MARKET RISK

### Interest Rate Risk

Our business is sensitive to fluctuations in interest rates. An increase in interest rates would adversely affect our prospective purchasers' ability to obtain financing and depress the overall housing demand. Higher interest rates may adversely affect our revenue, gross profits and net income. The PBOC published benchmark one-year lending rates in China (which directly affects the property mortgage rates offered by commercial banks in the PRC) for the years 2004, 2005 and 2006 and the six months ended June 30, 2007 were 5.58%, 5.58%, 6.12% and 6.57%, respectively. The PBOC raised the benchmark one-year lending rate several times from 5.31% in October 2004 to 7.29% in September 2007. In addition, on March 17, 2005, the PBOC raised the minimum property mortgage loan rate to 90% of the respective benchmark lending rates which was then changed to 85% of the respective benchmark lending rates on August 19, 2006. On September 27, 2007, the PBOC and the CBRC further increased the mortgage loan rates to at least 1.1 times the corresponding PBOC benchmark lending rates for property purchases who have obtained their first home through a mortgage loan. While these increases in interest rates have not had a material adverse effect on our ability to obtain financing on terms acceptable to us or on our overall financial condition, we cannot assure you that the PBOC will not further raise lending rates or that our business, financial condition and results of operations will not be adversely affected as a result of these adjustments.

### Foreign Exchange Risk

We conduct our business almost exclusively in the Renminbi except that certain receipts of sales proceeds are in foreign currencies. The value of the U.S. dollar and other foreign currencies may fluctuate and is affected by factors such as changes in China's political and economic conditions. The conversion of the Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Further on May 18, 2007, the 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 the PBOC. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar and by approximately 9.47% from July 21, 2005 to September 28, 2007. 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 the Renminbi against the U.S. dollar. Fluctuation in the value of the Renminbi to the U.S. dollar may adversely affect our cash flows, revenue, earnings and financial position.

### **Inflation**

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the China Statistical Bureau, China's overall national inflation rate, as represented by the general consumer price index, was approximately 3.9%, 1.8% and 1.5% in 2004, 2005 and 2006, respectively. Deflation could negatively affect our business as it would be a disincentive for prospective property buyers to make a purchase. Historically, we have not been materially affected by any inflation or deflation.

### **NON-GAAP FINANCIAL MEASURES**

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

- interest income;
- depreciation; and
- amortization of land use rights.

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/period of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable HKFRS and U.S. GAAP measure to EBITDA is operating profit. We operate in a capital intensive industry. We use EBITDA in addition to operating profit because operating profit includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of land use rights. 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 land use rights amortization, 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 operating profit under HKFRS to our definition of EBITDA for the periods indicated:

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
	(RMB in millions)				
	(unaudited)				
Operating profit .....	533.6	1,185.5	2,081.6	1,128.7	2,027.7
<b>Adjustments:</b> .....					
Interest income .....	(7.9)	(7.8)	(20.2)	(8.2)	(355.3)
Depreciation .....	101.5	133.6	137.2	56.3	52.7
Amortization of land use rights .....	42.2	42.3	39.6	20.5	25.4
<b>EBITDA</b> .....	<b>669.4</b>	<b>1,353.6</b>	<b>2,238.2</b>	<b>1,197.3</b>	<b>1,750.5</b>

You should not consider our definition of EBITDA in isolation or construe it as an alternative to operating profit 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 various government publications unless otherwise indicated. We have endeavored to obtain the most recent sources available. This information has not been independently verified by us or any of our respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.*

### THE ECONOMY OF THE PRC

The PRC economy has grown significantly since the PRC government introduced economic reforms in the late 1970s. China's accession to the World Trade Organization in 2001 has further accelerated the reform of the PRC economy. In the past ten years, China's GDP has increased from approximately RMB7,897.3 billion in 1997 to approximately RMB21,087.1 billion in 2006 at a compound annual growth rate, or CAGR, of approximately 11.5%.

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Nominal GDP (RMB in billion) . . . . .	7,897.3	8,440.2	8,967.7	9,921.5	10,965.5	12,033.3	13,582.3	15,987.8	18,386.8	21,087.1
Real GDP growth rate (%) . . . . .	9.3	7.8	7.6	8.4	8.3	9.1	10.0	10.1	10.4	11.1
Per capita GDP (RMB) . . . . .	6,420.0	6,796.0	7,159.0	7,858.0	8,622.0	9,398.0	10,542.0	12,336.0	14,103.0	16,084.0
Foreign Direct Investment										
—Actual investment (US\$ in billion) . . . . .	45.3	45.5	40.3	40.7	46.9	52.7	53.5	60.6	60.3	63.0
—Contracted investment (US\$ in billion) . . . . .	51.0	52.1	41.2	62.4	69.2	82.8	115.1	153.5	189.1	193.7
Fixed Asset Investment (RMB in billion) . .	2,494.1	2,840.6	2,985.5	3,291.8	3,721.4	4,350.0	5,556.7	7,047.7	8,877.3	10,999.8

*Source: China Statistical Yearbook 2007*

Since 2004, with a view to preventing China's economy from overheating and to achieving more balanced and sustainable economic growth, the PRC government has taken various measures to control money supply, credit availability and fixed assets investment. In particular, the PRC government has taken measures to discourage speculation in the residential property market and has increased the supply of affordable housing. See the section headed "Regulation."

### THE REAL ESTATE MARKET IN THE PRC

#### Real Estate Reforms

Real estate reforms in the PRC did not commence until the 1990s, prior to which the PRC real estate development industry was part of the nation's planned economy. In the 1990s, China's real estate and housing sector began its transition to a market-based system. A brief timeline of key housing reforms is set out below:

- 1988 . . . . The PRC government amended the national constitution to permit the transfer of state-owned land use rights
- 1992 . . . . Public housing sales in major cities commenced
- 1994 . . . . The PRC government further implemented real estate reform and established an employer/employee-funded housing fund
- 1995 . . . . The PRC government issued regulations regarding the sales and pre-sales of real estate, establishing a regulatory framework for real estate sales
- 1998 . . . . The PRC government abolished state-allocated housing policy



- The Guangdong government issued regulations on the administration of pre-sales of commodity properties in Guangdong Province
- 1999 . . . . The PRC government extended maximum mortgage term to 30 years  
The PRC government increased maximum mortgage financing from 70% to 80%  
The PRC government formalized procedures for the sale of real property in the secondary market
- 2000 . . . . The PRC government issued regulations to standardize the quality of construction projects, establishing a framework for administering construction quality
- 2001 . . . . The PRC government issued regulations relating to the sales of commodity properties
- 2002 . . . . The PRC government promulgated the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-For-Sale  
The PRC government eliminated the dual system for domestic and overseas home buyers in China
- 2003 . . . . The PRC government promulgated rules for more stringent administration of real estate loans with a view to reducing the credit and systemic risks associated with such loans  
The State Council issued a notice for sustainable and healthy development of the real estate market
- 2004 . . . . The State Council issued a notice requiring that, with respect to real estate development projects (excluding ordinary standard residential houses), the proportion of capital funds should be increased from 20% to 35%. The Ministry of Construction amended Administrative Measures on the Pre-sale of Commercial Housing in Cities. CBRC issued the Guideline for Commercial Banks on Risks of Real Estate Loans to further strengthen the risk management of commercial banks on real estate loans
- 2005 . . . . The PRC government instituted additional measures to discourage speculation in certain regional markets including increasing the minimum required down payment to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% for sales within two years of purchase, and prohibiting reselling unfinished properties before they are completed
- 2006 & 2007 . . The PRC government implemented additional land supply, bank financing, foreign investment and other measures to curtail fast increases in property prices, to encourage the development of middle- to low-end housing and to promote healthy development of the PRC real estate industry

Additional information on housing reforms and recent regulatory developments is set out in the section entitled “Regulation.”

The real estate reforms, together with the economic growth of China, an increase in disposable income, the emergence of the mortgage lending market and an increase in the urbanization rate, are key factors in sustaining the growth of China’s real estate market. Government housing reforms continue to encourage private ownership and it is expected that the proportion of urban residents who own their private properties will continue to increase.

The table below sets out selected data relating to China's urbanization and disposable income of urban households in China for the periods indicated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Urban population (in millions) . . . . .	502.1	523.8	542.8	562.1	577.1
Total population (in millions) . . . . .	1,284.5	1,292.3	1,299.9	1,307.6	1,314.5
Urbanization rate (%) . . . . .	39.1	40.5	41.8	43.0	43.9
Per capita disposable income of urban households (RMB) . .	7,703.0	8,472.0	9,422.0	10,493.0	11,759.0

Source: China Statistical Yearbook 2007

## THE PROPERTY MARKET IN CHINA

Prices for real estate in China increased from 1998 to 2005, with the average price of residential properties in China increasing from approximately RMB2,092.0 per sq.m. in 2002 to approximately RMB3,119.0 per sq.m. in 2006, while the average price for commodity properties in the same period increased from approximately RMB2,250 per sq.m. in 2002 to approximately RMB3,367.0 per sq.m. in 2006.

In addition, investment in real estate development in residential properties increased from approximately RMB421.7 billion in 2001 to approximately RMB1,086.1 billion in 2005.

The table below sets out selected data relating to the property market in China for the periods indicated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Investment in real estate development in residential properties (RMB in billions) . . . . .	522.8	677.7	883.7	1,086.1	1,363.8
Total GFA sold (sq.m. in millions) . . . . .	268.1	337.2	382.3	554.9	618.6
GFA of residential properties sold (sq.m. in millions) . . . . .	237.0	297.8	338.2	495.9	554.2
Average price of commodity properties (RMB per sq.m.) . . . . .	2,250.0	2,359.0	2,778.0	3,168.0	3,367.0
Average price of residential properties (RMB per sq.m.) . . . . .	2,092.0	2,197.0	2,608.0	2,937.0	3,119.0

Sources: China Statistical Yearbooks 2006 and 2007

## Housing Mortgages

According to CEIC Data Company Limited, a database vendor based in Hong Kong, the aggregate balance of outstanding mortgage loans for residential properties in the PRC grew from approximately RMB560 billion in 2001 to approximately RMB2,254.2 billion in 2006.

## Real Estate Sales Revenue

The upward trend in the China property industry is evidenced by the growth of revenue from the sale of properties in China. According to the China Statistical Yearbook 2007, the total revenue from real estate development in the PRC increased from approximately RMB707.8 billion in 2002 to approximately RMB1,804.7 billion in 2006. During the same period, total GFA sold increased from approximately 268,082,900 sq.m. in 2002 to approximately 618,570,700 sq.m. in 2006.

## THE PROPERTY MARKET IN GUANGDONG PROVINCE

Guangdong Province is located in the southern region of China. It has an area of approximately 178,000 sq.km. In 2006, Guangdong Province had a population of approximately 93.0 million. The real GDP growth rate of Guangdong Province exceeded the average national growth rate in each of the past ten years and the per capita GDP of Guangdong Province was significantly higher than the national average. The table below sets out selected economic statistics of Guangdong Province for the periods indicated.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nominal GDP										
(RMB in billions) . . . . .	777.5	853.1	925.1	1,074.1	1,203.9	1,350.2	1,584.5	1,886.5	2,236.7	2,620.4
As % of PRC GDP . . . . .	9.8	10.1	10.3	10.8	11.0	11.2	11.7	11.8	12.2	12.5
Real GDP growth										
rate (%) . . . . .	11.2	10.8	10.1	11.5	10.5	12.4	14.8	14.8	13.6	13.8
Per capita GDP (RMB) . . .	10,130.0	10,819.0	11,415.0	12,736.0	13,852.0	15,365.0	17,798.0	20,876.0	24,438.0	28,332.0
Per capita disposable										
income of urban										
households . . . . .	8,561.7	8,839.7	9,125.9	9,761.6	10,415.2	11,137.2	12,308.4	13,627.7	14,770.0	16,015.6

Source: Guangdong Statistical Yearbook 2007

According to the Guangdong Bureau of Statistics, properties with a total GFA of 43,141,000 sq.m. were completed in Guangdong Province in 2006, representing a decrease of 1.6% over 2005. A total of 51,785,600 sq.m. of commodity property was sold, of which 46,933,900 sq.m. was residential property. The total sales revenue amounted to approximately RMB251.3 billion, of which approximately RMB215.4 billion was from the sales of residential properties. The average price per sq.m. of commodity and residential properties in Guangdong Province in 2006 was approximately RMB4,852.7 and RMB4,589.4, respectively, representing an increase of 9.2% and 10.6% over 2005. The table below sets out selected data relating to the property market in Guangdong Province for the periods indicated.

	2002	2003	2004	2005	2006
Total GFA completed (sq.m. in millions) . . . . .	39.1	43.8	34.1	43.9	43.1
GFA of residential properties completed (sq.m. in millions) . . .	31.8	35.6	27.8	34.8	34.2
Total GFA sold (sq.m. in millions) . . . . .	25.3	30.6	30.5	50.4	51.8
GFA of residential properties sold (sq.m. in millions) . . . . .	22.6	27.4	27.4	45.5	46.9
% of total GFA sold in the PRC . . . . .	9.4	9.1	8.0	9.1	8.4
Total sales revenue (RMB in billions) . . . . .	82.0	97.8	105.9	223.9	251.3
Sales revenue from residential properties (RMB in billions) . . .	68.3	82.0	90.3	188.6	215.4
Average price of commodity properties (RMB per sq.m.) . . . . .	3,241.3	3,195.0	3,475.6	4,442.7	4,852.7
Average price of residential properties (RMB per sq.m.) . . . . .	3,022.2	2,993.6	3,294.6	4,149.3	4,589.4

Source: Guangdong Statistical Yearbook 2007

## Guangzhou City

Guangzhou is the largest city in southern China and the capital of Guangdong Province, located in the central southern region of the province. In 2006, Guangzhou had a population of approximately 9.7 million. The city experienced a high GDP growth rate for the five years from 2002 to 2006. Guangzhou's GDP reached approximately RMB607.4 billion in 2006, representing a per capita GDP of approximately RMB63,100.0. The table below sets out selected economic statistics of Guangzhou for the periods indicated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Nominal GDP (RMB in billions) .....	320.4	375.9	445.1	515.4	607.4
Real GDP growth rate (%) .....	13.2	15.2	15.0	12.9	14.8
Per capita GDP (RMB) .....	32,339.0	38,398.0	45,906.0	53,809.0	63,100.0

Source: Guangdong Statistical Yearbook 2007

According to the Guangdong Bureau of Statistics, properties with a total GFA of 9,885,600 sq.m. were completed in Guangzhou in 2006, representing a decrease of 7.1% over 2005. A total of 13,168,800 sq.m. of commodity property was sold, of which 11,563,300 sq.m. was residential property. The total sales revenue amounted to approximately RMB86.2 billion, of which approximately RMB71.1 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Guangzhou in 2006 was approximately RMB6,547.9 and RMB6,148.8, respectively, representing an increase of 22.0% and 22.1% over 2005.

## Foshan City

Foshan is located in the central southern region of Guangdong Province, situated to the east of Guangzhou. In 2006, Foshan had a population of approximately 5.9 million. The city experienced a high GDP growth rate for the five years from 2002 to 2006. Foshan's GDP reached approximately RMB292.8 billion in 2006, representing a per capita GDP of approximately RMB50,232.0. The table below sets out selected economic statistics of Foshan for the periods indicated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Nominal GDP (RMB in billions) .....	132.9	157.8	191.8	238.3	292.8
Real GDP growth rate (%) .....	13.4	17.4	18.3	19.4	19.3
Per capita GDP (RMB) .....	24,030.0	28,162.0	33,669.0	41,266.0	50,232.0

Source: Guangdong Statistical Yearbook 2007

According to the Guangdong Bureau of Statistics, properties with a total GFA of 4,357,000 sq.m. were completed in Foshan in 2006, representing a decrease of 7.3% over 2005. A total of 6,704,700 sq.m. of commodity property was sold, of which 6,098,100 sq.m. was residential property. The total sales revenue amounted to approximately RMB25.9 billion, of which approximately RMB22.9 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Foshan in 2006 was approximately RMB3,863.1 and RMB3,759.5, respectively, representing an increase of 13.8% and 16.9% over 2005.

## Jiangmen City

Jiangmen is located in the southern region of Guangdong Province, on the west side of the Pearl River Delta. In 2006, Jiangmen had a population of approximately 4.1 million. Jiangmen's GDP reached approximately RMB94.2 billion in 2006, representing a per capita GDP of approximately RMB22,936.0. The table below sets out selected economic statistics of Jiangmen for the periods indicated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Nominal GDP (RMB in billions) .....	56.6	61.8	69.6	80.5	94.2
Real GDP growth rate (%) .....	8.5	11.0	12.2	12.8	15.6
Per capita GDP (RMB) .....	14,022.0	15,235.0	17,039.0	19,636.0	22,936.0

Source: Guangdong Statistical Yearbook 2007

According to the Guangdong Bureau of Statistics, properties with a total GFA of 2,096,700 sq.m. were completed in Jiangmen in 2006, representing an increase of 47.2% from 2005. A total of 2,120,400 sq.m. of commodity property was sold, of which 1,983,900 sq.m. was residential property. The total sales revenue amounted to approximately RMB4.4 billion, of which approximately RMB3.9 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Jiangmen in 2006 was approximately RMB2,052.2 and RMB1,989.0, respectively, representing an increase of 7.4% and 6.9% over 2005.

## Yangjiang City

Yangjiang is located in the coastal region of southwestern Guangdong Province in the vicinity of the Pearl River Delta. In 2006, Yangjiang had a population of approximately 2.3 million. Yangjiang's GDP reached approximately RMB33.9 billion in 2006, representing a per capita GDP of approximately RMB14,581.0. The table below sets out selected economic statistics of Yangjiang for the periods indicated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Nominal GDP (RMB in billions) .....	19.2	21.5	25.1	29.5	33.9
Real GDP growth rate (%) .....	10.8	11.8	12.6	14.3	13.8
Per capita GDP (RMB) .....	8,560.0	9,515.0	10,963.0	12,758.0	14,581.0

Source: Guangdong Statistical Yearbook 2007

According to the Guangdong Bureau of Statistics, properties with a total GFA of 439,900 sq.m. were completed in Yangjiang in 2006, representing a decrease of 33.1% over 2005. A total of 618,100 sq.m. of commodity property was sold, of which 591,600 sq.m. was residential property. The total sales revenue amounted to approximately RMB1.2 billion, of which approximately RMB1.1 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Yangjiang in 2006 was approximately RMB1,884.1 and RMB1,796.0, respectively, representing an increase of 25.6% and 28.6% over 2005.

## Shaoguan City

Shaoguan is located in the northern region of Guangdong Province. In 2006, Shaoguan had a population of approximately 2.9 million. Shaoguan's GDP reached approximately RMB40.1 billion in 2006, representing a per capita GDP of approximately RMB13,690.0. The table below sets out selected economic statistics of Shaoguan for the periods indicated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Nominal GDP (RMB in billions) .....	23.1	26.4	30.5	34.0	40.1
Real GDP growth rate (%) .....	10.4	12.9	9.1	9.9	14.7
Per capita GDP (RMB) .....	8,277.0	9,343.0	10,648.0	11,708.0	13,690.0

Source: Guangdong Statistical Yearbook 2007

According to the Guangdong Bureau of Statistics, properties with a total GFA of 770,700 sq.m. were completed in Shaoguan in 2006, representing a decrease of 40.3% over 2005. A total of 1,038,700 sq.m. of commodity property was sold, of which 954,000 sq.m. was residential property. The total sales revenue amounted to approximately RMB1.6 billion, of which approximately RMB1.3 billion was from the sales of residential properties. The average price per sq.m. of commodity and residential properties in Shaoguan in 2006 was approximately RMB1,587.0 and RMB1,386.4, respectively, representing an increase of 17.9% and 16.2% over 2005.

## Zhaoqing City

Zhaoqing is located in the central-western region of Guangdong Province. In 2006, Zhaoqing had a population of approximately 3.7 million. Zhaoqing's GDP reached approximately RMB51.6 billion in 2006, representing a per capita GDP of approximately RMB13,991.0. The table below sets out selected economic statistics of Zhaoqing for the periods indicated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Nominal GDP (RMB in billions) .....	29.4	32.8	39.1	45.1	51.6
Real GDP growth rate (%) .....	10.3	11.4	13.2	14.4	14.5
Per capita GDP (RMB) .....	8,401.0	9,258.0	10,829.0	12,315.0	13,991.0

Source: Guangdong Statistical Yearbook 2007

According to the Guangdong Bureau of Statistics, properties with a total GFA of 1,292,700 sq.m. were completed in Zhaoqing in 2006, representing an increase of 2.9% over 2005. A total of 1,148,700 sq.m. of commodity property was sold, of which 1,051,800 sq.m. was residential property. The total sales revenue amounted to RMB2.6 billion, of which RMB2.3 billion was from the sales of residential properties. The average price per sq.m. of commodity and residential properties in Zhaoqing in 2006 was approximately RMB2,288.0 and RMB2,226.5, respectively, representing an increase of 16.5% and 27.4% over 2005.

## Huizhou City

Huizhou is located in the southeastern region of Guangdong Province. In 2006, Huizhou had a population of approximately 3.8 million. Huizhou's GDP reached approximately RMB93.5 billion in 2006, representing a per capita GDP of approximately RMB25,043.0. The table below sets out selected economic statistics of Huizhou for the periods indicated.

	2002	2003	2004	2005	2006
Nominal GDP (RMB in billions) . . . . .	52.7	58.6	68.6	80.3	93.5
Real GDP growth rate (%) . . . . .	10.7	12.2	15.1	15.8	16.6
Per capita GDP (RMB) . . . . .	15,529.0	16,860.0	19,189.0	21,896.0	25,043.0

Source: Guangdong Statistical Yearbook 2007

According to the Guangdong Bureau of Statistics, properties with a total GFA of 1,730,200 sq.m. were completed in Huizhou in 2006, representing an increase of 29.3% over 2005. A total of 2,547,100 sq.m. of commodity property was sold, of which 2,423,700 sq.m. was residential property. The total sales revenue amounted to approximately RMB7.6 billion, of which approximately RMB6.9 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Huizhou in 2006 was approximately RMB2,975.9 and RMB2,839.7, respectively, representing an increase of 17.0% and 29.4% over 2005.

## THE PROPERTY MARKET IN HUNAN PROVINCE

Hunan Province is located in the southern region of China, to the north of Guangdong Province. It has an area of approximately 211,875 sq.km. In 2005, Hunan Province had a population of approximately 67.3 million. The table below sets out selected economic statistics of Hunan Province for the periods indicated.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Nominal GDP (RMB in billions) . . . . .	254.0	284.9	302.5	321.4	355.1	383.2	415.2	466.0	564.2	651.1
As % of PRC GDP . . . . .	3.6	3.6	3.6	3.6	3.6	3.5	3.5	3.4	3.5	3.6
Real GDP growth rate (%) . . . . .	12.6	10.8	9.1	8.3	9.0	9.0	9.0	9.6	12.0	11.6
Per capita GDP (RMB) . . . . .	3,963.0	4,420.0	4,667.0	4,933.0	5,425.0	6,120.0	6,734.0	7,589.0	9,165.0	10,426.0
Per capita disposable income of urban households . . . . .	—	5,209.7	5,434.3	5,815.4	6,218.7	6,780.6	6,958.6	7,674.2	8,617.5	9,524.0

Source: Hunan Statistical Yearbook 2006

According to the Hunan Bureau of Statistics, properties with a total GFA of 17,411,495 sq.m. were completed in Hunan Province in 2005, representing an increase of 19.3% over 2004. A total of 18,421,563 sq.m. of commodity property was sold, of which 16,115,960 sq.m. was residential property. The total sales revenue amounted to approximately RMB29.9 billion, of which approximately RMB22.6 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Hunan Province in 2005 was approximately RMB1,624.8 and RMB1,404.6, respectively, representing an increase of 7.6% and 12.5% over 2004. The table below sets out selected data on the property market in Hunan Province for the periods indicated.

	2001	2002	2003	2004	2005
Total GFA completed (sq.m. in millions) . . . . .	6.5	8.1	11.4	14.6	17.4
GFA of residential properties completed . . . . .	5.4	6.5	8.8	11.7	13.9
Total GFA sold (sq.m. in millions) . . . . .	4.4	6.0	8.5	11.9	18.4
GFA of residential properties sold (sq.m. in millions) . . . . .	3.9	5.2	7.3	10.3	16.1
% of total GFA sold in the PRC . . . . .	2.0	2.2	2.5	3.1	3.3
Total sales revenue (RMB in billions) . . . . .	5.5	8.0	12.0	18.0	29.9
Sales revenue from residential properties (RMB in billions) . . . . .	4.4	6.0	8.6	12.9	22.6
Average price of commodity properties (RMB per sq.m.) . . . . .	1,248.3	1,325.8	1,412.7	1,510.5	1,624.8
Average price of residential properties (RMB per sq.m.) . . . . .	1,123.4	1,150.0	1,188.3	1,248.3	1,404.6

Sources: Hunan Statistical Yearbooks 2002—2006

### Changsha City

Changsha is the capital of Hunan Province, located in the central eastern region of the province. In 2005, Changsha had a population of approximately 6.2 million. Changsha's GDP reached approximately RMB152.0 billion in 2005, representing a per capita GDP of approximately RMB23,968.0. The table below sets out selected economic statistics of Changsha for the periods indicated.

	2001	2002	2003	2004	2005
Nominal GDP (RMB in billions) . . . . .	72.8	81.3	92.9	113.4	152.0
Real GDP growth rate (%) . . . . .	12.1	12.7	14.0	15.0	14.9
Per capita GDP (RMB) . . . . .	12,443.0	13,747.0	14,810.0	18,036.0	23,968.0

Sources: Hunan Statistical Yearbooks 2002—2006

According to the Hunan Bureau of Statistics, properties with a total GFA of 5,505,662 sq.m. were completed in Changsha in 2005, representing an increase of 0.7% over 2004. A total of 6,740,762 sq.m. of commodity property was sold, of which 6,107,679 sq.m. was residential property. The total sales revenue amounted to approximately RMB15.6 billion, of which approximately RMB12.8 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Changsha in 2005 was approximately RMB2,313.7 and RMB2,088.8, respectively, representing an increase of 13.5% and 17.7% over 2004.



## THE PROPERTY MARKET IN INNER MONGOLIA

Inner Mongolia is located in the northern region of China. It has an area of approximately 1,183,000 sq.km. In 2005, Inner Mongolia had a population of approximately 23.9 million. The table below sets out selected economic statistics of Inner Mongolia for the periods indicated.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Nominal GDP (RMB in billions) . . . . .	102.3	115.4	126.3	137.9	153.9	171.4	194.1	238.8	304.1	390.0
As % of PRC GDP . . . . .	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.8	1.9	2.1
Real GDP growth rate (%) . . . . .	14.4	10.8	10.7	8.8	10.8	10.7	13.2	17.9	20.5	23.8
Per capita GDP (RMB) . . . . .	4,457.0	4,980.0	5,406.0	5,861.0	6,502.0	7,216.0	8,162.0	10,039.0	12,767.0	16,331.0
Per capita disposable income of urban households . . . . .	3,431.8	3,944.7	4,353.0	4,770.5	5,129.1	5,535.9	6,051.0	7,012.9	8,123.1	9,136.8

Source: Inner Mongolia Statistical Yearbook 2006

According to the Inner Mongolia Bureau of Statistics, properties with a total GFA of 8,971,200 sq.m. were completed in Inner Mongolia in 2005, representing an increase of 31.1% over 2004. A total of 10,788,000 sq.m. of commodity property was sold, of which 9,184,300 sq.m. was residential property. The total sales revenue amounted to approximately RMB17.8 billion, of which approximately RMB12.9 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Inner Mongolia in 2005 was approximately RMB1,653.2 and RMB1,401.6, respectively, representing an increase of 19.0% and 15.1% over 2004. The table below sets out selected data on the property market in Inner Mongolia for the periods indicated.

	2001	2002	2003	2004	2005
Total GFA completed (sq.m. in millions) . . . . .	5.2	5.8	6.2	6.8	9.0
GFA of residential properties completed . . . . .	3.7	4.1	4.8	5.3	7.2
Total GFA sold (sq.m. in millions) . . . . .	3.7	4.2	5.5	7.1	10.8
GFA of residential properties sold (sq.m. in millions) . . . . .	3.0	3.5	4.3	5.8	9.2
% of total GFA sold in the PRC . . . . .	1.7	1.6	1.6	1.9	1.9
Total sales revenue (RMB in billions) . . . . .	4.5	5.3	7.0	9.8	17.8
Sales revenue from residential properties (RMB in billions) . . . . .	3.0	3.6	4.7	7.0	12.9
Average price of commodity properties (RMB per sq.m.) . . . . .	1,234.7	1,255.7	1,270.4	1,388.8	1,653.2
Average price of residential properties (RMB per sq.m.) . . . . .	1,022.8	1,041.1	1,077.4	1,217.2	1,401.6

Sources: Inner Mongolia Statistical Yearbooks 2002—2006

## Hulunbeier City

Hulunbeier is located in the northeastern region of Inner Mongolia. In 2005, Hulunbeier had a population of approximately 2.7 million. Hulunbeier's GDP reached approximately RMB32.4 billion in 2005, representing a per capita GDP of approximately RMB11,971.0. The table below sets out selected economic statistics for Hulunbeier for the periods indicated.

	2001	2002	2003	2004	2005
Nominal GDP (RMB in billions) . . . . .	16.8	19.0	21.3	26.2	32.4
Real GDP growth rate (%) . . . . .	6.1	13.3	10.8	25.0	24.4
Per capita GDP (RMB) . . . . .	6,337.0	7,116.0	7,902.0	9,598.0	11,971.0

Sources: Inner Mongolia Statistical Yearbooks 2002—2006

According to the Inner Mongolia Bureau of Statistics, properties with a total GFA of 608,300 sq.m. were completed in Hulunbeier in 2005, representing an increase of 7.5% over 2004. A total of 1,014,800 sq.m. of commodity property was sold, of which 753,500 sq.m. was residential property. The total sales revenue amounted to approximately RMB1.7 billion, of which approximately RMB1.0 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Hulunbeier in 2005 was approximately RMB1,710.1 and RMB1,319.1, respectively, representing an increase of 11.2% and 9.7% over 2004.

## THE PROPERTY MARKET IN JIANGSU PROVINCE

Jiangsu Province is located along the east coast of China. It has an area of approximately 102,600 sq.km. Jiangsu Province had a population of approximately 75.4 million. The table below sets out selected economic statistics of Jiangsu Province for the periods indicated.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nominal GDP										
(RMB in billions) . . . . .	668.0	720.0	769.8	855.4	945.7	1,060.7	1,244.3	1,500.4	1,830.6	2,164.5
As % of PRC GDP . . . . .	8.5	8.5	8.6	8.6	8.6	8.8	9.2	9.4	10.0	10.3
Real GDP growth										
rate (%) . . . . .	12.0	11.0	10.1	10.6	10.2	11.7	13.6	14.8	14.5	14.9
Per capita GDP (RMB) . . . . .	9,371.0	10,049.0	10,695.0	11,765.0	12,882.0	14,396.0	16,830.0	20,223.0	24,560.0	28,814.0
Per capita disposable										
income of urban										
households . . . . .	5,765.0	6,018.0	6,538.0	6,800.0	7,375.0	8,178.0	9,263.0	10,482.0	12,319.0	14,084.0

Source: Jiangsu Statistical Yearbook 2007

According to the Jiangsu Bureau of Statistics, properties with a total GFA of 55,001,200 sq.m. were completed in Jiangsu Province in 2005, representing an increase of 40.8% over 2004. A total of 51,355,500 sq.m. of commodity property was sold, of which 45,231,400 sq.m. was residential property. The total sales revenue amounted to approximately RMB172.5 billion. The average price per sq.m. of commodity properties in Jiangsu Province in 2005 was approximately RMB3,358.8 representing an increase of 26.7% over 2004. The table below sets out selected data on the property market in Jiangsu Province for the periods indicated.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Total GFA completed (sq.m. in millions) . . . . .	23.4	27.0	31.2	39.1	55.0
GFA of residential properties completed . . . . .	19.2	22.6	26.2	32.2	45.0
Total GFA sold (sq.m. in millions) . . . . .	19.0	23.2	27.2	31.8	51.4
GFA of residential properties sold (sq.m. in millions) . . .	17.1	20.7	23.6	27.6	45.2
% of total GFA sold in the PRC . . . . .	8.5	8.7	8.1	8.3	9.3
Total sales revenue (RMB in billions) . . . . .	34.3	44.7	59.8	84.3	172.5
Sales revenue from residential properties (RMB in billions) . . . . .	28.5	37.5	47.7	66.7	Not available
Average price of commodity properties (RMB per sq.m.) . .	1,800.6	1,925.2	2,197.0	2,651.0	3,358.8
Average price of residential properties (RMB per sq.m.) . . .	1,665.0	1,805.5	2,017.0	2,418.0	Not available

Sources: Jiangsu Statistical Yearbooks 2003, 2005 and 2006

### Taizhou City

Taizhou is located in the central region of Jiangsu Province. In 2006, Taizhou had a population of approximately 1.6 million. Taizhou's GDP reached approximately RMB22.8 billion in 2006, representing a per capita GDP of approximately RMB19,933.0. The table below sets out selected economic statistics of Taizhou for the periods indicated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Nominal GDP (RMB in billions) . . . . .	50.4	58.0	70.5	82.2	100.2
Real GDP growth rate (%) . . . . .	11.6	13.4	14.7	16.0	15.5
Per capita GDP (RMB) . . . . .	10,021.0	11,513.0	14,014.0	35,541.0	19,933.0

Sources: Jiangsu Statistical Yearbooks 2003—2007

According to the Jiangsu Bureau of Statistics, properties with a total GFA of 1,388,400 sq.m. were completed in Taizhou in 2005, representing an increase of 13.4% over 2004. A total of 1,447,200 sq.m. of commodity property was sold. The total sales revenue amounted to approximately RMB3.3 billion. The average price per sq.m. of commodity property in Taizhou in 2005 was approximately RMB2,291.3.

## THE PROPERTY MARKET IN LIAONING PROVINCE

Liaoning Province is located in the southern district of northeastern region of China. It has an area of approximately 155,900 sq.km. In 2005, Liaoning Province had a population of approximately 41.9 million. The table below sets out selected economic statistics of Liaoning Province for the periods indicated.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Nominal GDP										
(RMB in billions) . . . . .	315.8	358.3	388.2	417.2	466.9	503.3	545.8	600.3	667.2	800.9
As % of PRC GDP . . . . .	4.4	4.5	4.6	4.7	4.7	4.6	4.5	4.4	4.2	4.4
Real GDP growth										
rate (%) . . . . .	8.6	8.9	8.3	8.2	8.9	9.0	10.2	11.5	12.8	12.3
Per capita GDP (RMB) . . . . .	7,730.0	8,725.0	9,415.0	10,086.0	11,177.0	12,015.0	13,000.0	14,270.0	15,835.0	18,983.0
Per capita disposable										
income of urban										
households . . . . .	4,207.2	4,518.1	4,617.2	4,898.6	5,357.8	5,797.0	6,524.6	7,240.6	8,007.6	9,107.6

Sources: Liaoning Statistical Yearbooks 2005 and 2006

According to the Liaoning Bureau of Statistics, properties with a total GFA of 24,439,000 sq.m. were completed in Liaoning Province in 2005, representing an increase of 6.1% over 2004. A total of 25,645,000 sq.m. of commodity property was sold, of which 23,404,000 sq.m. was residential property. The total sales revenue amounted to approximately RMB71.7 billion, of which approximately RMB62.1 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Liaoning Province in 2005 was approximately RMB2,797.6 and RMB2,651.7, respectively, representing an increase of 15.8% and 14.5% over 2004. The table below sets out selected data on the property market in Liaoning Province for the periods indicated.

	2001	2002	2003	2004	2005
Total GFA completed (sq.m. in millions) . . . . .	18.4	19.8	21.4	23.0	24.4
Total GFA sold (sq.m. in millions) . . . . .	11.7	12.8	15.0	20.1	25.6
GFA of residential properties sold (sq.m. in millions) . . . . .	9.9	11.2	13.2	18.0	23.4
% of total GFA sold in the PRC . . . . .	5.2	4.8	4.4	5.2	4.6
Total sales revenue (RMB in billions) . . . . .	24.8	27.3	34.3	48.7	71.7
Sales revenue from residential properties (RMB in billions) . . . . .	19.9	22.3	28.1	41.7	62.1
Average price of commodity properties (RMB per sq.m.) . . . . .	2,126.1	2,139.3	2,291.1	2,416.7	2,797.6
Average price of residential properties (RMB per sq.m.) . . . . .	1,998.9	1,991.3	2,131.3	2,316.3	2,651.7

Source: Liaoning Statistical Yearbook 2006

### Shenyang City

Shenyang is the capital of Liaoning Province, locating in the central region of the province. In 2005, Shenyang had a population of approximately 7.0 million. Shenyang's GDP reached approximately RMB208.4 billion in 2005, representing a per capita GDP of approximately RMB29,935.0. The table below sets out selected economic statistics of Shenyang for the periods indicated.

	2001	2002	2003	2004	2005
Nominal GDP (RMB in billions) . . . . .	117.4	132.6	150.1	177.2	208.4
Real GDP growth rate (%) . . . . .	10.1	13.1	14.2	15.5	16.0
Per capita GDP (RMB) . . . . .	17,992.0	20,316.0	23,271.0	27,487.0	29,935.0

Sources: Liaoning Statistical Yearbooks 2002—2006

According to the Liaoning Bureau of Statistics, properties with a total GFA of 10,577,000 sq.m. were completed in Shenyang in 2005, representing an increase of 29.0% over 2004. A total of 9,961,000 sq.m. of commodity property was sold, of which 9,312,000 sq.m. was residential property. The total sales revenue amounted to approximately RMB31.7 billion, of which approximately RMB28.2 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Shenyang in 2005 was approximately RMB3,186.9 and RMB3,026.6, respectively, representing an increase of 4.3% and 2.1% over 2004.

## THE PROPERTY MARKET IN ANHUI PROVINCE

Anhui Province is located in east China, across the basins of the Yangtze River and the Huaihe River. It has an area of approximately 139,400 sq.km. In 2006, Anhui Province had a population of approximately 65.9 million. The table below sets out selected economic statistics of Anhui Province for the periods indicated.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nominal GDP (RMB in billions) . . . . .	655.8	710.6	775.5	839.6	914.2	1002.0	1095.8	1241.7	1385.2	1561.3
As % of PRC GDP . . . . .	8.3	8.4	8.4	8.5	8.3	8.3	8.1	7.8	7.5	7.4
Real GDP growth rate (%) . . . . .	11.7	8.4	9.1	8.3	8.9	9.7	9.4	13.31	11.56	12.75
Per capita GDP (RMB) . . . . .	514.1	551.0	598.5	643.8	696.6	760.3	829.1	933.0	1053.1	1203.7
Per capita disposable income of urban households . . . . .	4599.3	4770.5	5064.6	5293.6	5668.8	6032.4	6778.0	5711.4	8470.7	9771.1

Source: Anhui Statistical Yearbook 2007

According to the Anhui Bureau of Statistics, properties with a total GFA of 20,672,297 sq.m. were completed in Anhui Province in 2006. A total of 23,078,346 sq.m. of commodity property was sold, of which 20,375,447 sq.m. was residential property. The total sales revenue amounted to approximately RMB53.6 billion, of which approximately RMB43.9 billion was from the sale of residential properties. The average price per sq.m. of commodity and residential properties in Anhui Province in 2006 was approximately RMB2,322.0 and RMB2,153.0, respectively.

### Chaohu City

Chaohu is located in central Anhui Province. In 2006, Chaohu had a population of approximately 4.5 million. Chaohu's GDP reached approximately RMB34.4 billion in 2006, representing a per capita GDP of approximately RMB8,319.0. The table below sets out selected economic statistics of Chaohu for 2006.

	2006
Nominal GDP (RMB in billions) . . . . .	34.4
Real GDP growth rate (%) . . . . .	12.2
Per capita GDP (RMB) . . . . .	8,319.0

Source: Anhui Statistical Yearbook 2007

According to the Anhui Bureau of Statistics, properties with a total GFA of 978,682 sq.m. were completed in Chaohu in 2006. A total of 932,847 sq.m. of commodity property was sold, of which 817,942 sq.m. was residential property.

## Chizhou City

Chizhou is a city in Anhui Province. In 2006, Chizhou had a population of approximately 1.6 million. Chizhou's GDP reached approximately RMB13.0 billion in 2006, representing a per capita GDP of approximately RMB9,066.0. The table below sets out selected economic statistics of Chizhou for 2006.

	<u>2006</u>
Nominal GDP (RMB in billions) .....	13.0
Real GDP growth rate (%) .....	14.0
Per capita GDP (RMB) .....	9,066.0

Source: Anhui Statistical Yearbook 2007

According to the Anhui Bureau of Statistics, properties with a total GFA of 669,578 sq.m. were completed in Chizhou in 2006. A total of 965,246 sq.m. of commodity property was sold, of which 839,656 sq.m. was residential property.

## THE PROPERTY MARKET IN CHONGQING

Chongqing is located on the edge of the Yungui Plateau, intersected by the Jialing River and the upper reaches of the Yangtze River. In 2006, Chongqing had a population of approximately 32.0 million. Chongqing's GDP reached approximately RMB349.2 billion in 2006, representing a per capita GDP of approximately RMB12,457.0. The table below sets out selected economic statistics of Chongqing for the periods indicated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Nominal GDP (RMB in billions) .....	199.0	227.3	269.3	307.0	349.2
Real GDP growth rate (%) .....	10.3	11.5	12.2	11.5	12.2
Per capita GDP (RMB) .....	7052.0	8091.0	9624.0	10,982.0	12,457.0

Source: Chongqing Statistical Yearbook 2007

According to the Chongqing Bureau of Statistics, properties with a total GFA of 22,248,400 sq.m. were completed in Chongqing in 2006. A total of 22,284,600 sq.m. of commodity property was sold, of which 20,117,000 sq.m. was residential property.

## THE HOTEL INDUSTRY IN THE PRC

China's tourism industry and hotel industry have benefited from the strong economic growth in China which has resulted in higher disposable incomes of urban households, reflecting a more affluent domestic customer base. In addition, the increased number of international travellers also contributed to the growth of China's tourism and hotel sectors. In 2006, there were 124.9 million inbound visitors, including visitors from Hong Kong, Macau and Taiwan, representing an increase of 3.8% increase over 2005. The majority of these visitors were from Hong Kong, Macau and Taiwan, which collectively accounted for 82.2% of the total number of inbound visitors in 2006. The table below sets out the number of inbound visitors arriving in China from 2002 to 2006.

	<u>Inbound visitors</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total (millions) .....	97.9	91.6	109.0	120.3	124.9
From Hong Kong and Macau (millions) .....	80.8	77.5	88.4	95.9	98.3
From Taiwan (millions) .....	3.7	2.7	3.7	4.1	4.4
Foreigners (millions) .....	13.4	11.4	16.9	20.3	22.2
Increase/(Decrease) (%) .....	10.0	(6.4)	19.0	10.4	3.8

Source: China Statistical Yearbook 2007

To accommodate the growing number of inbound visitors, the number of star-rated hotels in China increased from 7,358 in 2001 to 10,888 in 2004, representing a CAGR of 14.0%. The table below sets out the number of star-rated hotels and hotel rooms as well as the average occupancy rates in China from 2001 to 2004, reflecting the supply in the hotel sector.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Star-rated hotels . . . . .	7,358	8,880	9,751	10,888
Hotel rooms (thousands) . . . . .	816.2	897.2	992.8	1,237.9
Average occupancy rates (%) . . . . .	58.5%	60.2%	56.1%	60.6%

Sources: Statistical Report on China Star-Rated Hotels 2001—2004

### Hotel Industry in Guangdong Province

In 2006, Guangdong Province received approximately 100.4 million inbound visitors, including visitors from Hong Kong, Macau and Taiwan, representing an increase of 4.8% over 2005. The majority of these visitors were from Hong Kong, Macau and Taiwan, which collectively accounted for approximately 94.5 million of inbound visitors in 2006. The table below sets out the number of inbound visitors in Guangdong Province from 2002 to 2006.

	<u>Inbound visitors</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total (millions) . . . . .	80.6	70.0	87.5	95.8	100.4
% of Inbound Visitors to China . . . . .	82.4	76.4	80.2	79.6	80.4
From Hong Kong and Macau (millions) . . . . .	75.0	64.3	80.9	88.3	92.3
From Taiwan (millions) . . . . .	2.0	1.4	2.0	2.2	2.2
Foreigners (millions) . . . . .	3.6	2.9	4.6	5.4	5.9
Increase/(Decrease) (%) . . . . .	11.1	(13.3)	25.0	9.5	4.8

Source: Guangdong Statistical Yearbook 2007

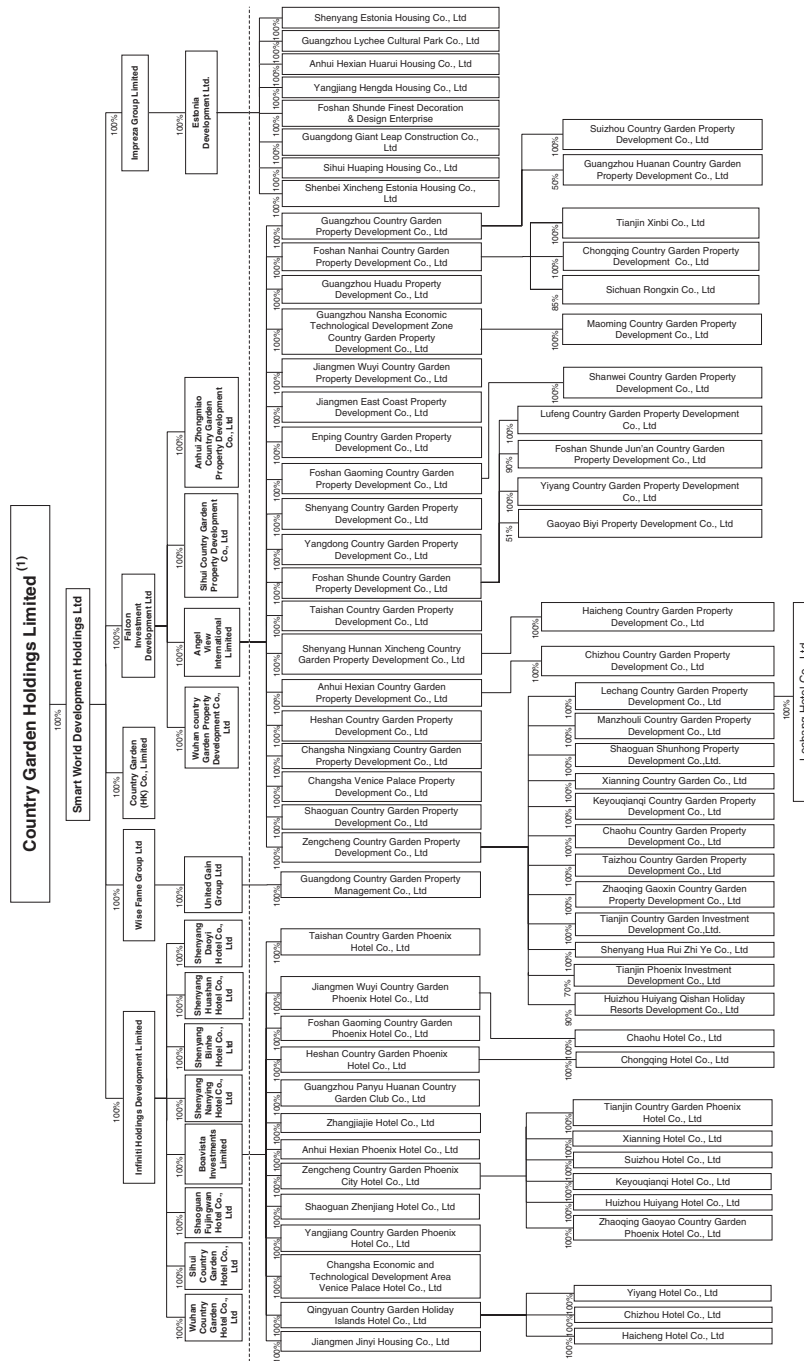
According to Guangdong Tourism Bureau, there were 1,164 star-rated hotels in Guangdong Province in 2006. The table below sets out the number of star-rated hotels in 2006 in cities where we have developed or are developing hotels.

	<u>Total</u>	<u>Star-rating</u>				
		<u>Five-star</u>	<u>Four-star</u>	<u>Three-star</u>	<u>Two-star</u>	<u>One-star</u>
Guangzhou City . . . . .	209	7	30	95	72	5
Foshan City . . . . .	97	1	16	46	30	4
Jiangmen City . . . . .	36	1	5	22	6	2
Yangjiang City . . . . .	33	1	2	14	16	0
Qingyuan City . . . . .	49	0	6	22	18	3

Source: Guangdong Statistical Yearbook 2007

# CORPORATE STRUCTURE

The following chart shows our simplified corporate structure as of August 31, 2007.



**Note:**

(1) The ultimate shareholders of the Company (other than public shareholders) are Yang Huiyan, Yang Erzhu, Su Rubo, Zhang Yaoyuan, Ou Xueming, who hold 58.19%, 9.98%, 4.99%, 4.99% and 4.99%, respectively of the Company's shares. See "Principal Shareholders."



## BUSINESS

### OVERVIEW

We are one of the leading integrated property developers in the PRC, with substantially all of our assets and operations based in the PRC. We have benefited, since we first commenced our property development activities in 1997, and expect to continue to benefit from the growth in the property sector associated with the economic development of the PRC, particularly in Guangdong Province. Our primary business has been the development of large-scale residential community projects and the sale of various types of products, including villas, townhouses, apartment buildings, parking spaces and retail shops. As an integrated property developer, our lines of business also include construction, installation, fitting and decoration as well as property management. In addition, we also develop and manage hotels within some of our projects to enhance the projects' potential for value appreciation.

Our residential home projects are generally located in the suburban areas of first-tier cities and in the newly urbanized town centers of second- and third-tier cities. While the local residents in Guangdong Province constitute our core customer base, we have also generated demand from residents in Hong Kong, Macau and neighboring provinces.

As of August 31, 2007, we had 35 projects at various stages of development. 25 of these projects are located in Guangdong Province: eight in Guangzhou City, five in Foshan City, four in Jiangmen City, one in Yangjiang City, three in Shaoguan City, two in Zhaoqing City, one in Huizhou City and one in Shanwei City. Another 10 projects are located in other provinces and regions including one in Changsha City in Hunan Province, one in each of Hulunbeier City and Xing'anmeng in Inner Mongolia, one in Taizhou City in Jiangsu Province and four in Shenyang City in Liaoning Province, one in each of Wuhan City and Xianning City in Hubei Province.

As of August 31, 2007, our projects had an aggregate completed GFA of approximately 6,957,800 sq.m., on which we had built 39,671 units to house an estimated of 158,000 people. We had an aggregate GFA under development of approximately 6,771,589 sq.m. and an aggregate GFA of approximately 23,934,723 sq.m. relating to properties held for future development as of the same day. In addition, as of August 31, 2007, we entered into land grant contracts in respect of land located in 13 cities with an aggregate site area of approximately 12,327,960 sq.m. pending issuance of land use rights certificates, with an aggregate expected GFA of approximately 21,431,978 sq.m. for future development.

The hotels that we have developed and currently operate include two five-star hotels and one four-star hotel, as well as three hotels which have been developed in accordance with the five-star rating standard set forth in the "Star-Rating Standard for Tourist Hotels" (旅遊飯店星級的劃分與評定). In addition, we have five hotels under construction in accordance with the five-star standard set forth in the "Star-Rating Standard for Tourist Hotels."

We have also been granted a number of awards and recognitions including the following:

- Top Tax Paying Private Enterprise in China awarded by the State Administration of Taxation in 2006;
- "Country Garden" awarded by the PRC State Administration for Industry and Commerce ("SAIC") as China's Well-Known Trademark in the property sector in 2006 (only two property developers in the PRC have been given such recognition); and
- Top Ten Best Employers awarded by the International Human Resource Management, PKU Business Review, Registered Human Resources Management Office in 2006

For each of the years ended December 31, 2004, 2005 and 2006, and the six months ended June 30, 2007, our total revenue was approximately RMB3,240.3 million, RMB5,191.5 million, RMB7,940.9 million and RMB6,033.8 million (US\$792.7 million), respectively. For each of the years ended December 31, 2004, 2005 and 2006, and the six months ended June 30, 2007, our net profit was approximately RMB237.1 million, RMB589.5 million, RMB1,672.5 million and RMB1,443.2 million (US\$189.6 million), respectively.

## **COMPETITIVE STRENGTHS**

### **We have an established business model which we believe we can replicate in other parts of China**

We focus on the development of large-scale residential communities in the suburban areas of first-tier cities as well as the newly urbanized town centers of second- and third-tier cities in the PRC. Our business model leverages on China's economic growth, increasing urbanization and increasing standards of living. We believe that we have aligned our business development with the objectives of local governments, as our large-scale township developments raise the living standards of the local population and help to improve the business environment of the local economies. As of August 31, 2007, we had 35 projects spanning five provinces and one autonomous region, with 25 projects in Guangdong Province and 10 projects outside Guangdong Province. Our contracted sales of approximately RMB2.2 billion through August 31, 2007 for our Changsha project, our first project outside Guangdong Province, demonstrate our ability to replicate our business model in other provinces in China. As we continue to expand outside Guangdong Province, we expect that our revenue sources will become more geographically diversified and that pre-sale proceeds from outside Guangdong Province will represent a significant percentage of our cash flows in 2008 and thereafter.

We attribute the success of our business model to our ability to add value to our large-scale, quality township projects that are both affordable and enhance the living standard of the local population. In addition to providing a more competitively priced alternative with lower density and a healthier environment compared to city center properties, we proactively enhance the value of our properties by creating a better living environment through the provision of comprehensive community facilities and premium services in our master-planned communities. Our facilities include clubhouses, five-star standard hotels, supermarkets, schools, clinics, sports and recreational facilities as well as food and beverage outlets, while our services include health care, childcare, domestic assistance, property management, security and shuttle bus services for residents both within the projects as well as from projects to city centers.

Our development projects are strategically located in the suburban areas of first-tier cities or the newly urbanized town centers of second- and third-tier cities, with convenient transportation access to city centers. The lower land cost, together with our economies of scale and centralized and standardized operations, enable us to offer a more competitively priced and better quality alternative to properties in the city centers. In addition, the expansion of urban boundaries as part of China's urbanization process enables our property to realize substantial appreciation potential.

We believe our strategic locations and quality products as well as premium property management services not only enhance our customer appeal, but also help improve the overall quality and value of the surrounding areas. As a result, we believe that we are viewed as a preferred developer by local governments looking to improve the quality and attractiveness of their local areas.

### **We are one of the largest property developers in the PRC with one of the largest and lowest-cost land banks, which we believe provides a strong base for our future growth and profitability**

As of August 31, 2007, we had an aggregate GFA under development and for future development of approximately 30,706,311 sq.m. for which we have obtained all the relevant land use rights certificates. In addition, as of August 31, 2007, we have entered into land grant contracts in respect of land with an aggregate site area of approximately 12,327,960 sq.m. for which we have applied for or are in the process of applying for land use rights certificates in 13 cities in China, with an aggregate expected GFA of approximately 21,431,978 sq.m. for future development. We expect that these new acquisitions will further increase the value and size of our land bank when we obtain the land use rights certificates.

In 2006 and the six months ended June 30, 2007 our average unit land cost based on GFA was lower than 10% of our average unit selling price. Most importantly, our low-cost land bank not only supports our future

profitability but also gives us greater flexibility to diversify our product portfolio to cater to a broader customer base and respond more effectively to changing market conditions.

**We have large-scale and centralized and standardized operations, which provide high-quality and competitively priced products to our customers as well as rapid sales and attractive margins to us**

We are one of the largest PRC property developers. With our focus on developing large-scale, multi-phase suburban residential communities in the PRC, we can benefit from economies of scale through:

- the pooling of internal resources, which leads to a lower overhead cost per unit; and
- strengthening our bargaining power with suppliers and contractors, which enables us to obtain good quality supplies and services at relatively low costs and allows our customers to share in such benefits.

Our strong execution capabilities, large-scale, centralized and standardized operations have allowed us to rapidly develop and bring our projects to market in a cost-effective manner.

As a result of our strong brand recognition, unique and high quality product mix, together with a competitive pricing model, historically we have been able to pre-sell a substantial portion of the properties in our projects within a short period after launch.

**We are one of only two brands to have recognition as “China’s Well-Known Trademarks” in the property sector**

We believe our brand name “Country Garden” (碧桂園), as well as our guiding motto, “Country Garden — Giving you a five-star home” (碧桂園—給您一個五星級的家), have strong market recognition in the Guangdong, Hong Kong and Macau markets. We believe this market recognition is a result of our high quality products and services as we aim to provide our customers with not only pleasant and comfortable homes in a clean and safe environment, but higher living standards supported by comprehensive community facilities and services such as food and beverage, shopping, sports and leisure, transportation, healthcare, education and domestic assistance. This market recognition has helped us to achieve our leading position in the property market in Guangdong Province and to expand our operations to other PRC provinces. We were named in 2006 by SAIC as one of only two brands to have recognition as “China’s Well-Known Trademarks” in the property sector.

Our aim is to strengthen the confidence and trust of our customers in our products and services, and to secure repeat customers and referrals for us, all through an emphasis on quality property management and post-sales services. We believe that our increasing sales and our strong market position reflect the trust that we have been able to build with our customers and the recognition of our brand name and the quality of our products. Over 40% of the referrals we recorded in 2005 were from existing residents in our developed projects.

**We have a highly effective management structure, experienced management team and professional workforce**

We have a centralized management structure, which is highly efficient and cost effective:

- It allows us to apply standardized procedures across all of our projects to produce consistently high quality products which gives us the ability to sell products in large volumes without incurring excessive incremental overhead.
- Our centralized procurement system provides us with considerable bargaining power with our suppliers and contractors, allowing us to offer high quality and competitively priced products to our customers which contribute to a high degree of customer satisfaction.

Our senior management team has extensive industry knowledge, management skills and operating experience. The key members of our management have remained unchanged since our inception. In particular, Yeung Kwok Keung, Yang Erzhu, Su Rubo, Zhang Yaoyuan and Ou Xueming, who co-founded the Company in 1997, have remained as a cohesive team and have focused solely on our property development business since 1997. Many members of our management team are trained or licensed architects and civil engineers. We have also recruited a large number of mid-level managers and professionals with property experience or relevant management skills.

## **BUSINESS STRATEGIES**

### **Continue to focus on core property development business**

We intend to continue to grow our core property development business. The focus of our development will gradually shift to cities outside Guangdong Province and to regions experiencing rapid economic growth. We will actively look for suitable opportunities to develop large-scale residential communities in suburban areas of first-tier cities as well as the newly urbanized town centers of second- and third-tier cities. We believe this strategy is not only in line with China's urbanization trend of expanding existing urban boundaries of major cities and creating new urban clusters around second- and third-tier cities, but also consistent with our successful formula of controlling costs through our low-cost land bank, large-scale production and rapid sales.

We also intend to continue to incorporate five-star standard hotels in our large residential communities, as we believe they enhance the value and attractiveness of our communities. We believe this strategy also improves our standing and bargaining position with local governments during the land tender process, as five-star standard hotels are seen by local governments of second- and third-tier cities as an important feature to attract international investors.

### **Further strengthen our already leading position and brand name recognition**

We plan to continue to further strengthen our leading position and our "Country Garden" brand name recognition in Guangdong Province and across China. To distinguish ourselves from our competitors, we plan to continue to promote the "five-star home" motto and apply this to the services offered to our existing and prospective customers to improve the living environment of our customers.

We intend to continue to respond to changing market conditions, customer preferences and government policies in order to continuously deliver excellent-quality products that cater for a wide customer base at competitive prices in a timely manner, providing a unique and comfortable living environment for our customers as well as strengthening the recognition in our products and brand name. We will also encourage creativity and innovation in our product design through the exchange of ideas between our in-house experts and the external professionals who handle our outsourced work. Further, we intend to exercise increasingly effective control of construction quality and post-sales maintenance through the flat management structure we have adopted across our specialized functional departments and subsidiary companies.

### **Enhancing effective internal management and controls**

We intend to continue to adopt the best practices and standards in the industry for corporate governance and internal controls, drawing on our senior management's expertise and experience to facilitate our operations.

We intend to further enhance our internal management by clearly defining the responsibilities of each operating unit to ensure orderly and efficient operations and rapid responses to market conditions. We aim to enhance our overall financial and cost control ability while preserving flexibility and efficiency at the project level.

We intend to implement stricter financial discipline in managing indebtedness, liquidity and cash flow.

Further, we intend to formalize our internal evaluation and reward system to promote professionalism, initiatives and team spirit among our employees and to cultivate our corporate culture, which emphasizes responsibility, creativity and cooperation. This system will include elements such as a bonus system, which is already in place, and the share option scheme for our directors, senior management and employees. We will continue to provide our employees with a variety of training and development programs to assist in their career development. We will also actively recruit new talent to optimize our human resources and enhance the productivity and competitiveness of our workforce.

## OVERVIEW OF OUR PROPERTY DEVELOPMENT

As of August 31, 2007, we had 35 projects at various stages of development. 25 of these projects are located in Guangdong Province including eight in Guangzhou City, five in Foshan City, four in Jiangmen City, one in Yangjiang City, three in Shaoguan City, two in Zhaoqing City, one in Huizhou City and one in Shanwei City. Another 10 projects are located in other provinces including one in Changsha City in Hunan Province, one in each of Hulunbeier City and Xing'anmeng in Inner Mongolia, one in Taizhou City in Jiangsu Province, four in Shenyang City in Liaoning Province, one in each of Wuhan City and Xianning City in Hubei Province.

We have obtained all the relevant long-term title certificates for land of our completed properties and properties under development. Further, we have property interests derived from land use rights transfer agreements, compensation agreements or land grant contracts to develop residential properties in various cities in Guangdong Province, Changsha City in Hunan Province, Shenyang City and Anshan City in Liaoning Province, Chaohu City and Chizhou City in Anhui Province, Xianning City and Suizhou City in Hubei Province, Chongqing City, and Hulunbeier City in Inner Mongolia, with an aggregate site area of approximately 12,327,960 sq.m. As of August 31, 2007, we had not yet obtained land use rights certificates to these parcels of land and these land parcels are vacant land for future development purposes.

The relevant properties in a property development project is treated as completed when the local government authorities issue a Construction of Properties and Municipal Infrastructure Completed Construction Works Certified Report (房屋建築工程和市政基礎設施工程竣工驗收備案表). The relevant properties in a property development project is treated as having received that certification when we have provided the relevant government authorities with, among other things, the following documents and when an official seal has been affixed to the inspection-for-completion form:

- Relevant approvals and acceptance documents from the bureau of planning, public security and fire services and environmental protection;
- Completed Construction Works Certified Report (建設工程竣工驗收報告);
- Construction Permit (建築工程施工許可證);
- Project Quality Assessment Report (工程質量評估報告);
- Quality Inspection Report on Investigation and Design Documentation (勘察、設計文件質量檢查報告); and
- Inspection Report on the Quality of Construction Projects (建設工程質量監督報告).

A property is treated as “under development” immediately following the issuance of the Construction Permit but prior to the issuance of the Certification of Completion.

Unless otherwise indicated, we have obtained the relevant land use rights certificates for our properties. As our projects typically comprise multiple-phase developments on a rolling basis, a single project may include a number of phases that are variously completed, still under development or held for future development.

The site area information for an entire project is based on the relevant land use rights certificates. The aggregate GFA of an entire project is calculated by multiplying its site area by:

- the plot ratio specified in other approval documents from the local governments relating to the project;
- the maximum permissible plot ratio as specified in the relevant land grant contracts; or
- such lower plot ratio as we reasonably expect to be able to develop for such project.

The aggregate GFA of a project includes both saleable and non-saleable GFA. Non-saleable GFA refers to certain communal facilities, including transformer rooms and guard houses.

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

The project names used herein are the names that we have used, or intend to use, to market our properties.

The following table sets forth the information of our 35 projects as of August 31, 2007.

Project	City (District)	Types of Products	Completed property development										Properties under development										Properties for future development								
			Aggregate GFA for entire project		Total completed saleable GFA		Total saleable GFA sold		Completion Time		GFA under development <sup>2</sup>		Total saleable GFA under development <sup>2</sup>		Actual/Estimated commencement time <sup>3</sup>		Total saleable GFA pre-commencement time <sup>3</sup>		Actual/Estimated commencement time		GFA for future development <sup>4</sup>		Actual/Estimated commencement time		Estimated completion time		Interest attributable to us %				
			sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	
Country Garden East Court (碧桂園東苑)	Guangzhou (Panyu)	Low-rise apartment buildings and retail shops	269,222	240,550	238,860	227,319	Jun 29, 2002	—	—	—	—	—	—	—	—	—	—	—	—	—	28,672	1 <sup>st</sup> Quarter 2009	3 <sup>rd</sup> Quarter 2009	1 <sup>st</sup> Quarter 2010	4 <sup>th</sup> Quarter 2010	100	100				
Shawan Country Garden (沙灣碧桂園)	Guangzhou (Panyu)	Villas, townhouses and high-rise apartment buildings	280,568	54,247	53,997	53,812	Dec 13, 2002	220,201	223,558	220,201	223,558	220,201	223,558	220,201	223,558	220,201	223,558	220,201	223,558	220,201	223,558	220,201	223,558	220,201	223,558	220,201	223,558	220,201	223,558	220,201	223,558
Huannan Country Garden — Phase One to Five and Phase Seven (華南碧桂園一至五期及七期)	Guangzhou (Panyu)	Villas, townhouses, low-rise apartment buildings, high-rise apartment buildings and retail shops	1,010,424	683,205	629,617	626,399	Dec 30, 2006	240,796	278,466	240,796	278,466	240,796	278,466	240,796	278,466	240,796	278,466	240,796	278,466	240,796	278,466	48,753	1 <sup>st</sup> Quarter 2008	1 <sup>st</sup> Quarter 2009	4 <sup>th</sup> Quarter 2009	4 <sup>th</sup> Quarter 2009	100	100			
Licheng Country Garden (荔城碧桂園)	Guangzhou (Zengcheng)	Villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops	526,391	453,231	438,312	416,249	Jul 20, 2007	—	—	—	—	—	—	—	—	—	—	—	—	—	73,160	4 <sup>th</sup> Quarter 2007	2 <sup>nd</sup> Quarter 2008	4 <sup>th</sup> Quarter 2008	4 <sup>th</sup> Quarter 2008	100	100				
Country Garden Phoenix City (碧桂園鳳城)	Guangzhou (Zengcheng)	Villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops	3,940,630	1,703,605	1,638,726	1,520,718	Sep 27, 2006	432,575	488,315	432,575	488,315	432,575	488,315	432,575	488,315	432,575	488,315	432,575	488,315	432,575	1,748,710	3 <sup>rd</sup> Quarter 2007	2 <sup>nd</sup> Quarter 2007	4 <sup>th</sup> Quarter 2011	4 <sup>th</sup> Quarter 2011	100	100				
Huannan Country Garden—Phase Six (華南碧桂園六期)	Guangzhou (Panyu)	Villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops	428,599	321,198	321,198	319,989	Feb 12, 2007	85,431	87,401	85,431	87,401	85,431	87,401	85,431	87,401	85,431	87,401	85,431	87,401	85,431	20,000	1 <sup>st</sup> Quarter 2010	—	4 <sup>th</sup> Quarter 2010	4 <sup>th</sup> Quarter 2010	50	50				
Nansha Country Garden (南沙碧桂園)	Guangzhou (Nansha)	Villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops	508,241	56,583	54,993	50,300	Nov 30, 2006	433,277	434,612	433,277	434,612	433,277	434,612	433,277	434,612	433,277	434,612	433,277	434,612	433,277	17,046	3 <sup>rd</sup> Quarter 2007	2 <sup>nd</sup> Quarter 2008	4 <sup>th</sup> Quarter 2009	4 <sup>th</sup> Quarter 2009	100	100				
Holiday Islands—Haadu (假日半島—花廊)	Guangzhou (Huadu)	Villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops	531,597	94,323	93,111	93,111	Jul 14, 2007	117,420	118,915	117,420	118,915	117,420	118,915	117,420	118,915	117,420	118,915	117,420	118,915	318,559	4 <sup>th</sup> Quarter 2007	2 <sup>nd</sup> Quarter 2008	4 <sup>th</sup> Quarter 2008	4 <sup>th</sup> Quarter 2008	100	100					
Shunde Country Garden—including Country Garden West Court (順德碧桂園—含碧桂園西苑)	Foshan (Shunde)	Villas, townhouse, low-rise apartment buildings, high-rise apartment buildings and retail shops	2,253,816	1,719,638	1,606,781	1,512,297	Aug 17, 2007	384,369	386,292	384,369	386,292	384,369	386,292	384,369	386,292	384,369	386,292	384,369	386,292	147,886	4 <sup>th</sup> Quarter 2007	2 <sup>nd</sup> Quarter 2008	4 <sup>th</sup> Quarter 2009	4 <sup>th</sup> Quarter 2009	100	100					
Jin'an Country Garden (均安碧桂園)	Foshan (Shunde)	Villas, townhouses and low-rise apartment buildings	277,131	68,854	59,026	58,783	Jul 15, 2002	152,183	152,729	152,183	152,729	152,183	152,729	152,183	152,729	152,183	152,729	152,183	152,729	55,548	1 <sup>st</sup> Quarter 2010	3 <sup>rd</sup> Quarter 2010	4 <sup>th</sup> Quarter 2011	4 <sup>th</sup> Quarter 2011	90	90					
Peninsula Country Garden (半島碧桂園)	Foshan (Shunde)	Villas, townhouses, low-rise apartment buildings and retail shops	294,230	287,284	280,489	278,767	May 28, 2007	6,741	6,946	6,741	6,946	6,741	6,946	6,741	6,946	6,741	6,946	6,741	6,946	—	—	—	—	—	100	100					

Project	City (District)	Types of Products	Completed property development										Properties under development										Properties for future development			
			Aggregate GFA for entire project	Completed GFA	Total completed saleable GFA	Completion Date	GFA under development <sup>(c)</sup>	Total saleable GFA under development <sup>(c)</sup>	Actual/Estimated commencement date <sup>(a)</sup>	Total saleable GFA pre-commencement <sup>(b)</sup>	Actual/Estimated commencement date	Estimated completion time	GFA for future development <sup>(d)</sup>	Actual/Estimated commencement date	Actual/Estimated pre-sale commencement date	Estimated completion time	Interest attributable to us %	Actual/Estimated commencement date		Estimated completion time						
																		sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.	sq.m.
Caoming Country Garden (高明碧桂园)	Foshan (Gaoming)	Villas, townhouses, low-rise apartment buildings and retail shops	1,035,321	194,638	189,708	182,700	Sep 29, 2006	752,424	746,374	May 31, 2006	0	4 <sup>th</sup> Quarter 2007	88,259	3 <sup>rd</sup> Quarter 2008	2 <sup>nd</sup> Quarter 2009	4 <sup>th</sup> Quarter 2010	100	3 <sup>rd</sup> Quarter 2008	2 <sup>nd</sup> Quarter 2009	4 <sup>th</sup> Quarter 2010	100					
Nanhai Country Garden (南海碧桂园)	Foshan (Nanhai)	Villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops	564,973	140,721	140,475	137,509	Apr 28, 2007	414,922	404,952	Jun 27, 2005	241,055	Jan 26, 2006	9,330	4 <sup>th</sup> Quarter 2007	4 <sup>th</sup> Quarter 2008	4 <sup>th</sup> Quarter 2009	100	4 <sup>th</sup> Quarter 2007	—	4 <sup>th</sup> Quarter 2009	100					
Heshan Country Garden (佛山碧桂园)	Jiangmen (Heshan)	Villas, townhouses, low-rise apartment buildings, high-rise apartment buildings*, parking spaces and retail shops	3,359,953	359,404	348,038	299,208	Jun 27, 2007	341,752	337,781	Apr 30, 2006	48,862	Sep 22, 2006	2,658,797	4 <sup>th</sup> Quarter 2008	4 <sup>th</sup> Quarter 2008	2 <sup>nd</sup> Quarter 2011	100	4 <sup>th</sup> Quarter 2007	2 <sup>nd</sup> Quarter 2008	2 <sup>nd</sup> Quarter 2011	100					
Wuyi Country Garden (五邑碧桂园)	Jiangmen (Pengjiang)	Villas, townhouses and low-rise apartment buildings	690,697	359,171	331,937	290,305	Aug 28, 2007	327,834	325,983	Nov 15, 2006	33,022	Apr 27, 2007	3,692	3 <sup>rd</sup> Quarter 2007	1 <sup>st</sup> Quarter 2008	4 <sup>th</sup> Quarter 2009	100	3 <sup>rd</sup> Quarter 2007	1 <sup>st</sup> Quarter 2008	4 <sup>th</sup> Quarter 2009	100					
Xinhai Country Garden (新会碧桂园)	Jiangmen (Xinhai)	Villas, townhouses, low-rise apartment buildings, high-rise apartment building* and retail shops	380,963	67,389	66,331	38,867	Aug 14, 2007	115,945	114,602	Nov 7, 2005	29,455	Nov 30, 2006	197,629	1 <sup>st</sup> Quarter 2008	1 <sup>st</sup> Quarter 2009	4 <sup>th</sup> Quarter 2010	100	1 <sup>st</sup> Quarter 2008	1 <sup>st</sup> Quarter 2009	4 <sup>th</sup> Quarter 2010	100					
Taishan Country Garden (台山碧桂园)	Jiangmen (Taishan)	Villas, townhouses, low-rise apartment buildings, high-rise apartment building* and retail shops	3,518,115	—	—	—	—	520,564	501,465	Mar 31, 2006	83,437	Feb 9, 2007	2,997,551	3 <sup>rd</sup> Quarter 2008	2 <sup>nd</sup> Quarter 2008	3 <sup>rd</sup> Quarter 2011	100	3 <sup>rd</sup> Quarter 2007	2 <sup>nd</sup> Quarter 2008	3 <sup>rd</sup> Quarter 2011	100					
Yangdong Country Garden (阳东碧桂园)	Yangjiang (Yangdong)	Villas, townhouses, low-rise apartment buildings, high-rise apartment building* and retail shops	391,151	153,759	139,102	77,403	Mar 7, 2007	237,392	231,259	Apr 29, 2005	40,128	Dec 1, 2005	—	—	—	—	100	—	—	—	—					
Zhaoping Country Garden (肇庆碧桂园)	Zhaoping (Gaoyao)	Villas, townhouses, low-rise apartment buildings and retail shops	509,566	—	—	—	—	289,166	277,240	Sep 19, 2006	78,825	Feb 2, 2007	220,400	3 <sup>rd</sup> Quarter 2008	3 <sup>rd</sup> Quarter 2008	4 <sup>th</sup> Quarter 2009	51	3 <sup>rd</sup> Quarter 2007	3 <sup>rd</sup> Quarter 2008	4 <sup>th</sup> Quarter 2009	51					
Zhaoping Lanling Residence (肇庆新蓝岭公寓)	Zhaoping (Gaoxin)	Low-rise apartment buildings and retail shops	186,257	—	—	—	—	186,257	185,800	Sep 5, 2006	—	4 <sup>th</sup> Quarter 2007	—	—	—	100	—	—	—	—	100					
Shuanguan Country Garden (韶關碧桂园)	Shuanguan (Zhenjiang)	Townhouses, low-rise apartment buildings, high-rise apartment building* and retail shops*	1,482,086	—	—	—	—	579,182	568,351	Jan 17, 2007	—	4 <sup>th</sup> Quarter 2007	902,904	1 <sup>st</sup> Quarter 2008	4 <sup>th</sup> Quarter 2008	1 <sup>st</sup> Quarter 2011	100	1 <sup>st</sup> Quarter 2008	4 <sup>th</sup> Quarter 2008	1 <sup>st</sup> Quarter 2011	100					
Lechang Country Garden (乐昌碧桂园)	Lechang (Lechang)	Townhouses*, low-rise apartment buildings* and retail shops*	201,134	—	—	—	—	—	—	—	—	—	—	—	—	100	—	—	1 <sup>st</sup> Quarter 2008	4 <sup>th</sup> Quarter 2010	100					
Shuanguan Country Garden - Sun Palace (韶關碧桂园 - 太阳城)	Shuanguan (Xilin)	Townhouses*, high-rise apartment buildings* and retail shops	3,734,879	—	—	—	—	—	—	—	—	—	3,734,879	4Q2007	2Q2008	4Q2012	100	4Q2007	2Q2008	4Q2012	100					



Project	City (District)	Types of Products	Completed property development						Properties under development						Properties for future development					
			Aggregate GFA for entire project	Completed GFA	Total saleable GFA	Completion Time	GFA under development <sup>(1)</sup>	Total saleable GFA under development <sup>(2)</sup>	Actual/Estimated commencement time	Actual/Estimated pre-sale commencement time	Estimated completion time	GFA for future development <sup>(3)</sup>	Actual/Estimated commencement time	Actual/Estimated pre-sale commencement time	Estimated completion time	Interest attributable to us %				
																	sq.m.	sq.m.	sq.m.	sq.m.
Huiyang Country Garden (惠陽碧桂園)	Huizhou (Huiyang)	Townhouses, high-rise apartment buildings* and retail shops*	696,657	—	—	—	13,365	9,332	Aug 16, 2007	—	1 <sup>st</sup> Quarter 2008	3 <sup>rd</sup> Quarter 2008	683,292	3 <sup>rd</sup> Quarter 2007	1 <sup>st</sup> Quarter 2008	4 <sup>th</sup> Quarter 2010	90			
Shanwei Country Garden (汕尾碧桂園)	Shanwei (Chengqu)	Townhouses*, high-rise apartment buildings* and retail shops*	759,899	—	—	—	—	—	—	—	—	—	759,899	4Q2007	2Q2008	4Q2010	100			
Changsha Country Garden (長沙碧桂園)	Changsha (Xingsha)	Villas, townhouses, low-rise apartment buildings, high-rise apartment buildings* and retail shops	1,303,366	—	—	—	645,718	601,363	Sep 30, 2005	329,280	Sep 21, 2006	3 <sup>rd</sup> Quarter 2008	657,648	4 <sup>th</sup> Quarter 2007	4 <sup>th</sup> Quarter 2008	3 <sup>rd</sup> Quarter 2009	100			
Shenyang Country Garden (沈陽碧桂園)	Shenyang (Hushan)	Townhouses* and high-rise apartment buildings*	314,626	—	—	—	13,942	11,039	Jul 21, 2007	—	2 <sup>nd</sup> 4 <sup>th</sup> Quarter 2008	4 <sup>th</sup> Quarter 2008	300,684	3 <sup>rd</sup> Quarter 2007	2 <sup>nd</sup> 4 <sup>th</sup> Quarter 2008	4 <sup>th</sup> Quarter 2010	100			
Country Garden—Sun Palace (碧桂園•太陽城)	Shenyang (Daoyi)	Townhouses and high-rise apartment buildings*	554,300	—	—	—	16,928	14,030	Jul 21, 2007	—	2 <sup>nd</sup> 4 <sup>th</sup> Quarter 2008	4 <sup>th</sup> Quarter 2010	537,372	3 <sup>rd</sup> Quarter 2007	2 <sup>nd</sup> 4 <sup>th</sup> Quarter 2008	4 <sup>th</sup> Quarter 2010	100			
Country Garden—Galaxy Palace (碧桂園•銀河城)	Shenyang (Yuhong)	Townhouses*, high-rise apartment buildings*	731,976	—	—	—	—	—	—	—	—	—	731,976	4Q2007	3Q2008	4Q2010	100			
Country Garden—Phoenix City (碧桂園•鳳凰城)	Shenyang (Sijiazun)	Townhouses*, high-rise apartment buildings*	1,422,000	—	—	—	—	—	—	—	—	—	1,422,000	4Q2007	2Q2008	4Q2010	100			
Taizhou Country Garden (泰州碧桂園)	Taizhou (Hailing)	Townhouses and high-rise apartment buildings*	675,540	—	—	—	34,462	31,592	Jun 27, 2007	—	1 <sup>st</sup> Quarter 2008	4 <sup>th</sup> Quarter 2008	641,078	3 <sup>rd</sup> Quarter 2007	1 <sup>st</sup> Quarter 2008	4 <sup>th</sup> Quarter 2010	100			
Manzhouli Country Garden (滿洲里碧桂園)	Hulunbeier (Manzhouli)	Townhouses, low-rise apartment buildings, high-rise apartment buildings* and retail shops*	715,495	—	—	—	104,502	103,152	Jul 23, 2007	—	3 <sup>rd</sup> Quarter 2008	4 <sup>th</sup> Quarter 2008	610,993	3 <sup>rd</sup> Quarter 2007	3 <sup>rd</sup> Quarter 2008	4 <sup>th</sup> Quarter 2010	100			
Xing'anjing Country Garden (興安碧桂園)	Xing'anjing (Ke'erqiyuyiqiang)	Townhouses*, high-rise apartment buildings*	2,022,810	—	—	—	—	—	—	—	—	—	2,022,810	4Q2007	2Q2008	4Q2011	100			
Wuhan Country Garden (武漢碧桂園)	Wuhan (Hamian)	Townhouses*, high-rise apartment buildings*	510,500	—	—	—	—	—	—	—	—	—	510,500	4Q2007	2Q2008	4Q2010	100			
Xianning Country Garden (咸寧碧桂園)	Xianning (Xian'an)	Townhouses*, high-rise apartment buildings* and retail shops	1,581,000	—	—	—	—	—	—	—	—	—	1,581,000	4Q2007	2Q2008	4Q2010	100			
Total			6,957,800	6,680,700	6,183,736	6,771,589	6,534,308	1,801,296	23,934,724											

- (1) "Completed GFA", "Total completed saleable GFA" and "Total saleable GFA sold" for completed property developments are based on the surveying reports by relevant government departments.
- (2) "GFA under development" is based on the actual measurements by our housing management department.
- (3) "Total saleable GFA under development" and "Total saleable GFA pre-sold" for properties under development are derived from the Commodity Properties Pre-sale Permit (商品房預售許可証)
- (4) "GFA held for future development" for each project is the GFA expected to be built.

\* These types of products are products that we expect to develop in the project, but we have not obtained Planning Permit (規劃許可証) or planning approval for developing these products.

As of August 31, 2007, our project companies had entered into land grant contracts in respect of land in various cities in Guangdong Province, Changsha City in Hunan Province, Shenyang City and Anshan City in Liaoning Province, Chaohu City, and Chizhou City in Anhui Province, Xianning City and Suizhou City in Hubei Province, Chongqing City and Hulunbeier City in Inner Mongolia, with an aggregate site area of approximately 12,327,960 sq.m. for which we had not yet obtained the relevant land use rights certificates, with an aggregate expected GFA of approximately 21,431,978 sq.m. for future development. Although Jingtian, our PRC legal advisor, has advised us that there are no material legal impediments to obtaining land use rights certificates for these parcels of land, we are uncertain that we will obtain the land use rights certificates in respect of these parcels of land in a timely manner or at all. Further, we have not commenced any construction or preparation of construction relating to these parcels of land, nor do we have any detailed plans for them. As of August 31, 2007, an aggregate land premium of approximately RMB2,960.3 million had been paid for the land for which land use rights certificates had not been obtained, and an aggregate land premium of approximately RMB2,093.9 million was outstanding.

The table below shows the location, site area, expected developable aggregate GFA, incurred costs and outstanding commitments for each of these parcels of land as of August 31, 2007. The site area information for these parcels of land is based on the relevant land grant contracts or public auction confirmation. The costs incurred are based on our internal records. The outstanding commitments represent the aggregate purchase price specified in the land grant contracts or public auction confirmation, net of the costs already incurred.

<u>Location</u>	<u>Interest</u>	<u>Site Area</u>	<u>Expected</u>	<u>Land premium</u>	<u>Outstanding</u>
	<u>attributable to us</u>		<u>developable</u>		
	<u>%</u>	<u>Sq.m.</u>	<u>aggregate GFA</u>	<u>incurred</u>	<u>commitments</u>
			<u>Sq.m.</u>	<u>(RMB in</u>	<u>(RMB in</u>
				<u>thousands)</u>	<u>thousands)</u>
Foshan City (Gaoming), Guangdong Province .....	100%	387,933	387,933	34,543	—
Jiangmen City (Heshan), Guangdong Province .....	100%	23,051	23,051	7,264	—
Jiangmen City (Enping), Guangdong Province .....	100%	400,669	480,802	69,120	13,020
Zhaoqing City (Gaoyao), Guangdong Province .....	51%	51,445	14,335	14,158	—
Zhaoqing City (Sihui), Guangdong Province ...	100%	157,333	84,334	41,000	—
Shaoguan City (Lechang), Guangdong Province .....	100%	80,507	138,794	1,000	34,200
Shaoguan City (Xilian), Guangdong Province .....	100%	138,831	238,789	25,907	—
Changsha City (Ningxiang), Hunan Province ..	100%	187,265	280,000	53,380	—
Shenyang City (Daoyi), Liaoning Province ...	100%	341,529	767,897	253,402	239,772
Shenyang City (Huashan), Liaoning Province .....	100%	923,922	1,378,731	492,000	160,289
Shenyang City (Yuhong), Liaoning Province <sup>(1)</sup> .....	100%	1,194,776	2,986,941	500,000	765,431
Anshan City (Haicheng), Liaoning Province ...	100%	526,614	894,700	159,350	24,950
Chaohu City (Zhongmiao), Anhui Province ...	100%	917,170	1,207,009	220,123	—
Chaohu City (Hexian), Anhui Province .....	100%	1,768,893	2,286,800	80,000	186,150
Chizhou City (Zhanqianqu), Anhui Province ..	100%	536,794	640,003	80,000	173,635
Xianning City (Xian'an), Hubei Province .....	100%	666,670	1,563,031	100,000	—
Suizhou City (Chengnan), Hubei Province ...	100%	1,726,600	3,308,162	300,000	439,293
Chongqing City (Changshou), Chongqing .....	100%	419,282	617,578	180,000	57,202
Hulunbeier City (Manzhouli), Inner Mongolia .....	100%	1,878,676	4,133,087	349,050	—
<b>Total</b> .....		<b>12,327,960</b>	<b>21,431,977</b>	<b>2,960,297</b>	<b>2,093,942</b>

*Note:*

(1) This parcel of land occupies a total site area of 1,488,742 sq.m., of which 293,966 sq.m. has been issued with the land use rights certificate and 1,194,776 sq.m. is pending land use rights certificates. The total land premium for the entire parcel is RMB1,265.4 million, of which we had paid RMB500 million as of August 31, 2007.

## DESCRIPTION OF OUR PROPERTY PROJECTS

The following map shows the locations of our 35 projects as of August 31, 2007.



The following sets forth brief descriptions of our 35 projects. The commencement date for a project or the commencement date for a phase of a project is the date we start construction of the first building of the project or phase of development. The completion date for a project or the completion date for a phase of a project is either the date we obtain the completion documents or the Construction of Properties and Municipal Infrastructure Completed Construction Works Certified Report (房屋建築工程和市政基礎設施工程竣工驗收備案表) from the local government authorities for the last building or phase of the project.

### Guangzhou City

#### Country Garden East Court (碧桂園東苑)

Country Garden East Court is located at the intersection of Yushan West Road and 105 Guo Road, Panyu, Guangzhou City. It is being developed by Guangzhou Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 220,943 sq.m., and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 269,222 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 191,044 sq.m., and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 240,550 sq.m. Construction of these properties commenced on June 16, 2000 and was completed on June 29, 2002. The

completed properties comprised 2,761 residential flats with an aggregate saleable GFA of approximately 235,251 sq.m. as well as 56 retail shops with an aggregate saleable GFA of approximately 3,609 sq.m. As of August 31, 2007, 2,665 residential flats, with an aggregate saleable GFA of approximately 227,319 sq.m., had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised 96 residential flats, with an aggregate GFA of approximately 7,932 sq.m., and 56 retail shops with an aggregate GFA of approximately 3,609 sq.m.

As of August 31, 2007, there was no property under development in Country Garden East Court.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 29,899 sq.m., and had an expected aggregate GFA of approximately 28,672 sq.m.

As of June 30, 2007, the total development costs of Country Garden East Court (including the costs of land acquisition and construction) incurred were RMB584.3 million.

Country Garden East Court offers low-rise apartment buildings and retail shops. This development features Country Garden Farm, a commercial pedestrian street and fountain plaza.

#### *Shawan Country Garden* (沙灣碧桂園)

Shawan Country Garden is located at Shawan, Panyu. It is being developed by Guangzhou Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 307,266 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 280,568 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 123,350 sq.m., and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 54,247 sq.m. Construction of these properties commenced on February 14, 2001 and was completed on December 13, 2002. The completed properties comprised of 243 residential flats with an aggregate saleable GFA of approximately 53,997 sq.m. As of August 31, 2007, 242 residential flats with an aggregate saleable GFA of approximately 53,812 sq.m. had been sold and delivered, and one residential flat with an aggregate saleable GFA of approximately 185 sq.m. is unsold.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 180,516 sq.m., and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 223,558 sq.m. Construction of these properties commenced on July 27, 2007 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 1,850 residential flats, with an aggregate saleable GFA of approximately 220,201 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 3,400 sq.m., with an expected aggregate GFA of approximately 2,763 sq.m.

As of June 30, 2007, the total development costs of Shawan Country Garden (including the costs of land acquisition and construction) incurred were RMB213.1 million.

Shawan Country Garden offers villas, townhouses and high-rise apartment buildings.

#### *Huanan Country Garden —Phases One to Five and Phase Seven* (華南碧桂園——一至五期及七期)

Huanan Country Garden—Phases One to Five and Phase Seven is located on Ying Bin Road, Nan Cun Town, Panyu District. It is being developed by Guangzhou Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 1,133,278 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 1,010,424 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 880,703 sq.m., and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 683,205 sq.m. Construction of these properties commenced on July 30, 1999 and was completed on December 30, 2006. The completed properties comprised 4,221 residential flats, with an aggregate saleable GFA of approximately 628,247 sq.m., and 20 retail shops with an aggregate saleable GFA of approximately 1,371 sq.m. As of August 31, 2007, 4,213 residential flats, with an aggregate saleable GFA of approximately 626,399 sq.m., had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised eight residential units with an aggregate saleable GFA of approximately 1,848 sq.m. and 20 retail shops with an aggregate saleable GFA of approximately 1,371 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 167,033 sq.m., and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 278,466 sq.m. Construction of these properties commenced on February 25, 2005 and is expected to be completed in the second quarter of 2010. Upon completion, there will be 1,664 residential flats, with an aggregate saleable GFA of approximately 237,623 sq.m., as well as 72 retail shops with an aggregate GFA of approximately 3,173 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 85,542 sq.m., and had an expected aggregate GFA of approximately 48,753 sq.m.

As of June 30, 2007, the total development costs of Huanan Country Garden—Phases One to Five and Phase Seven (including the costs of land acquisition and construction) incurred were RMB2,016.0 million.

Huanan Country Garden—Phases One to Five and Phase Seven offers various types of products, including villas, townhouses, low-rise apartment buildings, high-rise apartment buildings and retail shops. In the six years since the development commenced selling on May 1, 2000, more than 16,000 residents have moved in. Huanan Country Garden—Phases One to Five and Phase Seven features a clubhouse, an auditorium, a swimming pool, tennis courts, a kindergarten, a primary school, badminton courts, basketball courts, Chinese restaurants, a supermarket, table-tennis rooms, snooker rooms and reading rooms.

Huanan Country Garden—Phases One to Five and Phase Seven has been awarded the title of 2005 China (Guangzhou) Harmonious Residential Community (2005 年中國廣州和諧人居社區) by Nanfang Daily (南方都市報), 2004 Creditworthy Property Sale Certificate (誠信售樓認證) by Guangdong Construction News of Yangchang Evening Post (羊城晚報業集團廣東建設報) and Guangdong Property Enterprise Creditworthy Alliance (廣東省房地產企業誠信聯盟發起企業) and 2003 Top Ten Brand Developer (十大最佳品牌開發商) by the Real Estate Magazine (房地產導刊社).

#### *Licheng Country Garden (荔城碧桂園)*

Licheng Country Garden is located on Fuqian Road, Licheng Town, Zengcheng City, close to Licheng Municipal Plaza. It is being developed by Zengcheng Country Garden Property Development Co., Ltd. (“Zengcheng Country Garden Co.”), our wholly-owned project company. The project occupies an aggregate site area of approximately 733,666 sq.m. and has an expected aggregate GFA (including both saleable and non-saleable GFA) of approximately 526,391 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 615,495 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 453,231 sq.m. Construction of these properties commenced on August 31, 2001 and was completed on July 20, 2007. The completed properties comprised 2,522 residential flats with an aggregate saleable GFA of approximately 402,111 sq.m. as well as 338 retail shops with an aggregate saleable GFA of approximately 17,712 sq.m., and 1,308 parking spaces with an aggregate saleable GFA of approximately 18,490 sq.m. As of August 31, 2007, 2,522 residential flats with an aggregate saleable GFA of approximately 402,111 sq.m., as well as 214 retail shops with

an aggregate saleable GFA of approximately 11,734 sq.m. and 189 parking spaces with an aggregate saleable GFA of approximately 2,404 sq.m. had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised 124 retail shops with an aggregate saleable GFA of approximately 5,978 sq.m. and 1,119 parking spaces with an aggregate saleable GFA of approximately 16,086 sq.m.

As of August 31, 2007, there was no property under development in Licheng Country Garden.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 118,171 sq.m., and had an expected aggregate GFA of approximately 73,160 sq.m.

As of June 30, 2007, the total development costs of Licheng Country Garden (including the costs of land acquisition and construction) incurred were RMB1,015.7 million.

This development offers various types of products including villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops. Licheng Country Garden features a lake, a clubhouse, an outdoor swimming pool, tennis courts, badminton courts, a basketball court, table-tennis rooms, an outdoor children playground, reading rooms, a supermarket, a kindergarten and a commercial street.

Licheng Country Garden has been awarded the title of 2006 Excellent Real Estate Development for Mortgage (2006 年優質按揭樓盤) by the Guangdong branch of China Construction Bank (中國建設銀行廣東省分行), 2004 Advanced Unit in Zengcheng for Driving Civilization in Guangdong Province (增城市創建廣東省文明城市先進單位) by the PRC Communist Party Committee of the People's Government of Zengcheng (增城市人民政府中共增城市委) and 2003 Zengcheng Model Living Community for Property Development (2003 年增城市物業管理示範住宅小區) by Zengcheng State-owned Land and Property Bureau (增城市國土房產管理局).

#### *Country Garden Phoenix City (碧桂園鳳凰城)*

Country Garden Phoenix City is located in Xintang Town, Zengcheng City, close to Guangshen Highway. It is being developed by Zengcheng Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 6,155,199 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 3,940,630 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 3,662,299 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 1,703,605 sq.m. Construction of these properties commenced on November 5, 2001 and was completed on September 27, 2006. The completed properties comprised 7,281 residential flats with an aggregate saleable GFA of approximately 1,602,357 sq.m., as well as 386 retail shops with an aggregate saleable GFA of approximately 34,755 sq.m. and 128 parking spaces with an aggregate saleable GFA of approximately 1,615 sq.m. As of August 31, 2007, 6,916 residential flats with an aggregate saleable GFA of approximately 1,501,435 sq.m., as well as 278 retail shops with an aggregate saleable GFA of approximately 18,969 sq.m. and 23 parking spaces with an aggregate saleable GFA of approximately 314 sq.m. had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised 365 residential units with an aggregate saleable GFA of approximately 100,922 sq.m. and 108 retail shops with an aggregate saleable GFA of approximately 15,786 sq.m. and 105 parking spaces with an aggregate GFA of approximately 1,300 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 749,947 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 488,315 sq.m. Construction of these properties commenced on April 29, 2006 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 2,810 residential flats with an aggregate saleable GFA

of approximately 431,997 sq.m., as well as one retail shop with an aggregate saleable GFA of approximately 578 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 1,742,953 sq.m. and had an expected aggregate GFA of approximately 1,748,710 sq.m.

As of June 30, 2007, the total development costs of Country Garden Phoenix City (including the costs of land acquisition and construction) incurred were RMB6,518.8 million.

Country Garden Phoenix City offers various types of products, including villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops. This development features Phoenix Island, an international rental community tailored for foreigners, the five-star Guangzhou Country Garden Phoenix City Hotel (廣州碧桂園鳳凰城酒店), Phoenix City Bilingual School (鳳凰城中英文學校), Lychee Cultural Village (荔枝文化村), a transportation hub, a recreational center, Dongmen Retail Street and clubhouses.

Phoenix City has been awarded the title of 2004–2005 Grade A Taxpayer of the Credit Ranking of Taxpayers (2004–2005 年度納稅信用等級評定 A 級納稅人) and 2005 Top 100 Taxpaying Enterprise (廣東省 2005 年度稅務百強) by the Guangzhou Municipal Office of the State Administration of Taxation (廣州市國家稅務局) and Guangzhou Local Taxation Bureau (廣州市地方稅局), 2002–2006 Enterprise of Observing Contract and Valuing Credit (守合同重信用企業) by Guangzhou Industrial and Commercial Administration Bureau (廣州工商行政管理局) and 2005 Top 20 Value Guarantee and Appreciation Property Development in Guangzhou (2005 年度廣州保值增值 20 名盤) by the Guangdong branches of the Industrial and Commerce Bank of China (中國工商銀行), Agricultural Bank of China (中國農業銀行), Bank of China (中國銀行), China Construction Bank (中國建設銀行) and Huanan Property Weekly of People's Daily (人民日報華南地產周刊).

#### *Huanan Country Garden—Phase Six (華南碧桂園—六期)*

Huanan Country Garden—Phase Six is located on Ying Bin Road, Nan Cun Town, Panyu District. It is being developed by Guangzhou Huanan Country Garden Property Development Co., Ltd., a project company owned equally by us and Guangzhou Zhencheng Property Development Co., Ltd. The project occupies an aggregate site area of approximately 300,030 sq.m., and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 428,599 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 232,712 sq.m., and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 321,198 sq.m. Construction of these properties commenced on July 7, 2004 and was completed on February 12, 2007. The completed properties comprised 1,912 residential flats, with an aggregate saleable GFA of approximately 321,198 sq.m. As of August 31, 2007, 1,901 residential flats with an aggregate saleable GFA of approximately 319,989 sq.m. had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised 11 residential flats with an aggregate saleable GFA of approximately 1,210 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 39,321 sq.m., and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 87,401 sq.m. Construction of these properties commenced on October 15, 2004 and is expected to be completed on August 30, 2007. Upon completion, there will be 588 residential flats with an aggregate saleable GFA of approximately 85,361 sq.m. and one retail shop with an aggregate saleable GFA of approximately 70 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 28,000 sq.m. and were planned to be used for the construction of a primary school and kindergarten with an aggregate GFA of approximately 20,000 sq.m.

According to the articles of association of Guangzhou Huanan Country Garden Property Development Co., Ltd., dividend distribution of the company requires the approval of both joint venture partners.

As of June 30, 2007, the total development costs of Huanan Country Garden—Phase six (including the cost of land acquisition and construction) incurred were RMB1,211.2 million.

This development offers various types of products, including villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops.

#### *Nansha Country Garden (南沙碧桂园)*

Nansha Country Garden is located on Jingang Road, Guangzhou Nansha Development Zone. Guangzhou Metro Line 4 will also reach Nansha directly in December 2007. It is being developed by Guangzhou Nansha Economic and Technological Development Zone Country Garden Property Development Co., Ltd. (“Nansha Country Garden Co.”), our wholly-owned project company. The project occupies an aggregate site area of approximately 416,657 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 508,241 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 79,200 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 56,583 sq.m. Construction of these properties commenced on September 29, 2004 and was completed on November 30, 2006. The completed properties comprised 462 residential flats with an aggregate saleable GFA of approximately 50,529 sq.m., as well as 91 retail shops with an aggregate saleable GFA of approximately 3,348 sq.m. and offices with an aggregate saleable GFA of approximately 1,116 sq.m. As of August 31, 2007, 444 residential flats with an aggregate GFA of approximately 47,589 sq.m. and 70 retail shops with an aggregate GFA of approximately 2,720 sq.m. had been sold. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised 18 residential flats with an aggregate GFA of approximately 2,940 sq.m. and 21 retail shops with an aggregate GFA of approximately 628 sq.m. as well as offices with an aggregate GFA of approximately 1,116 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 289,350 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 434,612 sq.m. Construction of these properties commenced on June 30, 2006 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 3,760 residential flats with an aggregate saleable GFA of approximately 433,277 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 48,107 sq.m. and had an expected aggregate GFA of approximately 17,046 sq.m.

As of June 30, 2007, the total development costs of Nansha Country Garden (including the costs of land acquisition and construction) incurred were RMB414.4 million.

Nansha Country Garden offers various types of products, including villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops. This development features a clubhouse, Yangguang Plaza, a supermarket and a commercial street.

#### *Holiday Islands—Huadu (假日半島—花都)*

Holiday Islands—Huadu is located at Shanqian Avenue, Chini Town, Huadu District. It is being developed by Guangzhou Huadu Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 937,861 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 531,597 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 236,900 sq.m. and had aggregate GFA (including saleable and non-saleable GFA) of approximately 94,323 sq.m.



Construction of these properties commenced on January 11, 2006 and was completed on July 14, 2007. The completed properties comprise 416 residential flats with an aggregate saleable GFA of approximately 93,111 sq.m. which had been sold and delivered.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 317,400 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 118,915 sq.m. Construction of these properties commenced on January 11, 2006 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 250 residential flats with an aggregate saleable GFA of approximately 117,420 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 383,561 sq.m. and had an expected aggregate GFA of approximately 318,359 sq.m.

As of June 30, 2007, the total development costs of Holiday Islands—Huadu (including the costs of land acquisition and construction) incurred were RMB469.5 million.

Holiday Islands—Huadu offers various types of products including villas, townhouses and is expected to offer low-rise apartment buildings and high-rise apartment buildings in the future.

## **Foshan City**

*Shunde Country Garden—including Country Garden West Court* (順德碧桂園—含碧桂園西苑)

Shunde Country Garden is located at the Bridge of Zhen Bi River, Beijiao Town, Shunde District. It is being developed by Foshan Shunde Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 2,993,516 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 2,253,816 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 2,362,500 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 1,719,638 sq.m. Construction of these properties commenced in 1992 and was completed on August 17, 2007. The completed properties comprised 12,010 residential flats, with an aggregate saleable GFA of approximately 1,566,512 sq.m. and 36 retail shops with an aggregate saleable GFA of approximately 10,625 sq.m., an office building with an aggregate saleable GFA of approximately 18,666 sq.m. and a hotel with an aggregate saleable GFA of approximately 10,979 sq.m. As of August 31, 2007, 11,794 residential flats with an aggregate saleable GFA of approximately 1,511,928 sq.m. and one retail shop with an aggregate saleable GFA of approximately 370 sq.m. had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised 216 residential flats with an aggregate saleable GFA of approximately 54,584 sq.m., 35 retail shops with an aggregate saleable GFA of approximately 10,255 sq.m., an office building with an aggregate saleable GFA of approximately 18,666 sq.m. and a hotel with total aggregate saleable GFA of approximately 10,979 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 517,455 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 386,292 sq.m. Construction of these properties commenced on September 26, 2005 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 1,620 residential flats with an aggregate saleable GFA of approximately 384,073 sq.m. and one retail shop with an aggregate saleable GFA of approximately 296 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 113,560 sq.m. and had an expected aggregate GFA of approximately 147,886 sq.m.

As of June 30, 2007, the total development costs of Shunde Country Garden (including the costs of land acquisition and construction) incurred were RMB3,808.2 million.

Shunde Country Garden offers various types of products, including villas, townhouses, low-rise apartment buildings and high-rise apartment buildings, as well as retail shops. Since its development, approximately 40,000 residents have moved in. This development features a four-star standard resort hotel, Shunde Country Garden Holiday Resort (順德碧桂園度假村) as well as four clubhouses, a fresh produce market, an international cultural plaza, Country Garden Hospital (碧桂園醫院) and Country Garden School (碧桂園學校).

Shunde Country Garden has been awarded the title of 2006 Excellent Real Estate Development for Mortgage (2006年優質按揭樓盤) by the China Construction Bank, 2005 Guangzhou Creating the National Model City of Environmental Protection Special Contribution Prize (廣州市創建國家模範城市特別貢獻獎) by Guangzhou Environmental Protection Educational Center (廣州市環境保護宣傳教育中心) and 2005 Most Reliable Brand for Consumers (2005年消費者最信賴十大質量品牌) by China Quality Leading Enterprise Expert Judging Committee (中國質量領先企業專家評審委員會).

#### *Jun'an Country Garden (均安碧桂園)*

Jun'an Country Garden is located on Cuihu Road, Jun'an Town, Shunde District. It is being developed by Foshan Shunde Jun'an Country Garden Property Development Co., Ltd., a project company in which we hold a 90% equity interest. The project occupies an aggregate site area of approximately 244,468 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 277,131 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 80,303 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 68,854 sq.m. Construction of these properties commenced on April 13, 2000 and was completed on July 15, 2002. The completed properties comprised 395 residential flats with an aggregate saleable GFA of approximately 59,026 sq.m. As of August 31, 2007, 393 residential flats with an aggregate saleable GFA of approximately 58,783 sq.m. had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised two residential flats with an aggregate saleable GFA of approximately 242 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 132,068 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 152,729 sq.m. Construction of these properties commenced on December 9, 2005 and is expected to be completed in the second quarter of 2008. Upon completion, there will be 1,012 residential flats with an aggregate GFA of approximately 152,183 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 32,097 sq.m. and had an expected aggregate GFA of approximately 55,548 sq.m.

As of June 30, 2007, the total development costs of Jun'an Country Garden (including the costs of land acquisition and construction) incurred were RMB269.1 million.

Jun'an Country Garden offers villas, townhouses and low-rise apartment buildings. A supermarket is in the proximity of this development.

#### *Peninsula Country Garden (半島碧桂園)*

Peninsula Country Garden is located next to the Jin Sha Bridge, Chencun Town, Shunde District. It is being developed by Foshan Shunde Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 529,948 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 294,230 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 509,475 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 287,284 sq.m. Construction of these properties commenced on April 28, 2003 and was completed on May 28, 2007. The completed properties comprised 1,088 residential flats with an aggregate saleable GFA of approximately 280,209 sq.m., as well as a retail shop with an aggregate GFA of approximately 280 sq.m. As of August 31, 2007, 1,081 residential flats with an aggregate saleable GFA of approximately 278,767 sq.m. had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised seven residential flats with an aggregate saleable GFA of approximately 1,442 sq.m. and a retail shop with an aggregate saleable GFA of approximately 280 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 20,473 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 6,946 sq.m. Construction of these properties commenced on April 11, 2005 and is expected to be completed in the third quarter of 2007. Upon completion, there will be 18 residential flats, with an aggregate saleable GFA of approximately 6,741 sq.m.

As of August 31, 2007, there was no property held for future development in Peninsula Country Garden.

As of June 30, 2007, the total development costs of Peninsula Country Garden (including the costs of land acquisition and construction) incurred were RMB936.7 million.

Peninsula Country Garden offers various types of products including villas, townhouses, low-rise apartment buildings and retail shops. This development features a luxurious clubhouse, a swimming pool, tennis courts, basketball courts, poker rooms and table-tennis rooms, as well as a supermarket and a commercial street.

Peninsula Country Garden has been awarded the title of 2006 Excellent Real Estate Development for Mortgage (2006 年優質按揭樓盤) by the China Construction Bank and 2005 Developed Enterprise (2005 年規模企業獎) and 2005 Tax Contribution Prize (2005 年稅收貢獻獎) by Chencun People's Government (陳村鎮人民政府).

#### *Gaoming Country Garden (高明碧桂園)*

Gaoming Country Garden is located at San Zhou Bai Ling Road, Gaoming District. It is being developed by Foshan Gaoming Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 1,774,595 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 1,035,321 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 194,430 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 194,638 sq.m. Construction of these properties commenced on July 28, 2004 and was completed on September 29, 2006. The completed properties comprised 1,130 residential flats with an aggregate GFA of approximately 184,658 sq.m., as well as 129 retail shops with an aggregate GFA of approximately 5,050 sq.m. As of August 31, 2007, 1,110 residential flats with an aggregate GFA of approximately 182,359 sq.m. as well as 11 retail shops with an aggregate GFA of approximately 382 sq.m. had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised 20 residential flats with an aggregate saleable GFA of approximately 2,299 sq.m. and 118 retail shops with an aggregate saleable GFA of approximately 4,668 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 1,523,586 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 752,424 sq.m. Construction of these properties commenced on May 31, 2006 and is expected to be completed in the fourth quarter of 2007. Upon completion, there will be 4,025 residential flats with an aggregate GFA of approximately 745,374 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 56,579 sq.m. and had an expected aggregate GFA of approximately 88,259 sq.m.

As of June 30, 2007, the total development costs of Gaoming Country Garden (including the costs of land acquisition and construction) incurred were RMB579.6 million.

Gaoming Country Garden offers various types of products, including villas, townhouses, low-rise apartment buildings and retail shops. This development features various amenities, such as reading rooms, poker rooms, tennis courts, basketball courts, swimming pools, table tennis rooms, a supermarket, commercial streets and Gaoming Country Garden Phoenix Hotel (高明碧桂園鳳凰酒店), a hotel built to a five-star standard.

Gaoming Country Garden has been awarded the title of 2005 Advanced Real Estate Developer (2005年先進房地產開發企業) by Foshan Gaoming Construction Bureau (佛山市高明區建設局).

#### *Nanhai Country Garden* (南海碧桂園)

Nanhai Country Garden is located in Yayao Village, Dali Town, Nanhai District, near Guangfo Highway, Yayao Intersection and 325 Highway. It is being developed by Foshan Nanhai Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 494,294 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 564,973 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 138,264 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 140,721 sq.m. Construction of these properties commenced on June 27, 2005 and was completed on April 28, 2007. The completed properties comprised 523 residential flats with an aggregate saleable GFA of approximately 140,475 sq.m. As of August 31, 2007, 511 residential flats with an aggregate GFA of 137,509 sq.m. had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised 12 residential flats with an aggregate saleable GFA of approximately 2,965 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 343,903 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 414,922 sq.m. Construction of these properties commenced on June 27, 2005 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 1,650 residential flats with an aggregate saleable GFA of approximately 404,452 sq.m., as well as 15 retail shops with an aggregate saleable GFA of approximately 500 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 12,127 sq.m. and had an expected aggregate GFA of approximately 9,330 sq.m.

As of June 30, 2007, the total development costs of Nanhai Country Garden (including the costs of land acquisition and construction) incurred were RMB1,317.2 million.

Nanhai Country Garden offers various types of products, including villas, townhouses, low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops. This development features a clubhouse with swimming pools, tennis courts, basketball courts, a library, table-tennis rooms and a supermarket.

### **Jiangmen City**

#### *Heshan Country Garden* (鶴山碧桂園)

Heshan Country Garden is located on Heshan Avenue, Shaping Town, Heshan District, across from Heshan Central Station and in the proximity of the commercial district of Heshan. It is being developed by Heshan

Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 3,487,786 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 3,359,953 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 603,619 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 359,404 sq.m. Construction of these properties commenced on March 26, 2004 and was completed on June 27, 2007. The completed properties comprised 1,984 residential flats with an aggregate GFA of approximately 338,681 sq.m. and 84 retail shops with an aggregate saleable GFA of approximately 9,358 sq.m. As of August 31, 2007, 1,746 residential flats with an aggregate saleable GFA of approximately 299,208 sq.m. had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised 238 residential flats with an aggregate GFA of approximately 39,473 sq.m. as well as 84 retail shops with an aggregate GFA of approximately 9,358 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 557,981 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 341,752 sq.m. Construction of these properties commenced on April 30, 2006 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 2,321 residential flats with an aggregate saleable GFA of approximately 331,838 sq.m., and there will be 50 retail shops with an aggregate saleable GFA of approximately 5,943 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 2,326,186 sq.m. and had an expected aggregate GFA of approximately 2,658,797 sq.m.

As of June 30, 2007, the total development costs of Heshan Country Garden (including the costs of land acquisition and construction) incurred were RMB1,271.7 million.

Heshan Country Garden offers various types of products, including villas, townhouses, low-rise apartment buildings, parking spaces and retail shops and is expected to offer high-rise apartment buildings in the future. This development features Heshan Country Garden Phoenix Hotel (鶴山碧桂園鳳凰酒店), a hotel built to a five-star standard, a commercial plaza and a man-made lake.

Heshan Country Garden has been awarded the title of 2005 Heshan Significant Taxpayer (2005年鶴山納稅大戶) by the Heshan People's Government (鶴山市人民政府).

#### *Wuyi Country Garden (五邑碧桂園)*

Wuyi Country Garden is located on Xihuan Road, Beixin Zone, Pengjiang District, Jiangmen. It is being developed by Jiangmen Wuyi Country Garden Property Development Co., Ltd. ("Wuyi Country Garden Co."), our wholly-owned project company. The project occupies an aggregate site area of approximately 1,350,251 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 690,697 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 741,403 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 359,171 sq.m. Construction of these properties commenced on August 16, 2004 and was completed on August 28, 2007. The completed properties comprised 1,692 residential flats with a saleable aggregate GFA of approximately 331,937 sq.m. As of August 31, 2007, 1,571 residential flats with an aggregate saleable GFA of approximately 290,305 sq.m. had been sold and delivered. The remaining completed properties, which included sold but undelivered properties and unsold properties, comprised 121 residential flats with an aggregate saleable GFA of approximately 41,632 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 599,202 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 327,834 sq.m. Construction of these properties commenced on November 15, 2006 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 1,700 residential flats, with an aggregate saleable GFA of approximately 323,983 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 9,646 sq.m. and had an expected aggregate GFA of approximately 3,692 sq.m.

As of June 30, 2007, the total development costs of Wuyi Country Garden (including the costs of land acquisition and construction) incurred were RMB1,282.7 million.

Wuyi Country Garden offers various types of products including villas, townhouses, low-rise apartment buildings, and high-rise apartment buildings. This development features Wuyi Country Garden Phoenix Hotel (五邑碧桂園鳳凰酒店), a hotel built to a five-star standard, as well as kindergartens, primary schools, a supermarket and a commercial street.

Wuyi Country Garden has been awarded the title of 2005 Best Habitation Villa Community (2005年最佳居住價值別墅社區) by Jiangmen Daily (江門日報).

#### *Xinhui Country Garden (新會碧桂園)*

Xinhui Country Garden is located at the intersection of Xin Hui Avenue and Xin Gang Road, Nan Xin District in the city center of Xinhui and in the proximity of Xinhui Central Station. It is being developed by Jiangmen East Coast Country Garden Property Development Co., Ltd., our wholly-owned project company. The project occupies an aggregate site area of approximately 356,762 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 380,963 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 94,195 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 67,389 sq.m. Construction of these properties commenced on November 7, 2005 and was completed on August 14, 2007. The completed properties comprised of 333 residential flats with an aggregate GFA of approximately 62,344 sq.m. as well as 84 retail shops with an aggregate GFA of approximately 3,987 sq.m. As of August 31, 2007, 176 residential flats with an aggregate saleable GFA of approximately 38,655 sq.m. as well as 5 retail shops, with an aggregate GFA of approximately 212 sq.m. had been sold and delivered. The remaining completed properties which included sold but undelivered properties and unsold properties, comprised of 157 residential flats with an aggregate GFA of approximately 23,689 sq.m. and 79 retail shops with an aggregate saleable GFA of approximately 3,775 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 125,162 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 115,945 sq.m. Construction of these properties commenced on November 7, 2005 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 610 residential flats with an aggregate saleable GFA of approximately 112,512 sq.m., as well as 48 retail shops with an aggregate GFA of approximately 2,090 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 137,405 sq.m. and had an expected aggregate GFA of approximately 197,629 sq.m.

As of June 30, 2007, the total development costs of Xinhui Country Garden (including the costs of land acquisition and construction) incurred were RMB347.0 million.

Xinhui Country Garden offers various types of products, including villas, townhouses and low-rise apartment buildings, high-rise apartment buildings, parking spaces and retail shops. This development features Xinhui Country Garden Phoenix Hotel (新會碧桂園鳳凰酒店), which has been developed to a five-star standard, a supermarket, Phoenix Commercial Plaza and a clubhouse.

#### *Taishan Country Garden (台山碧桂園)*

Taishan Country Garden is located in Shagang Hu Development Zone, Taicheng Town, Taishan City. It is being developed by Taishan Country Garden Property Development Co., Ltd. (“Taishan Country Garden Co.”), our wholly-owned project company. The project occupies an aggregate site area of approximately 4,277,222 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 3,518,115 sq.m.

As of August 31, 2007, there was no completed property in Taishan Country Garden.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 1,080,870 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 520,564 sq.m. Construction of these properties commenced on March 31, 2006 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 2,338 residential flats with an aggregate saleable GFA of approximately 472,642 sq.m., as well as 400 retail shops with an aggregate saleable GFA of approximately 28,823 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 3,196,353 sq.m. and had an expected aggregate GFA of approximately 2,997,551 sq.m.

As of June 30, 2007, the total development costs of Taishan Country Garden (including the costs of land acquisition and construction) incurred were RMB482.9 million.

Taishan Country Garden offers various types of products, including villas, townhouses, low-rise apartment buildings and retail shops, and is expected to offer high-rise apartment building in the future. This development features Taishan Country Garden Phoenix Hotel (台山碧桂園鳳凰酒店), a hotel built to a five-star standard, and a commercial pedestrian street.

#### **Yangjiang City**

##### *Yangdong Country Garden (陽東碧桂園)*

Yangdong Country Garden is located at Hubin West Road, Yangdong Town, beside the Yangdong Central Station in proximity to Yangjiang City Center and Jiangcheng District. It is being developed by Yangdong Country Garden Property Development Co., Ltd. (“Yangdong Country Garden Co.”), our wholly-owned project company. The project occupies an aggregate site area of approximately 574,381 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 391,151 sq.m.

As of August 31, 2007, the completed properties occupied an aggregate site area of approximately 217,638 sq.m. and had an aggregate GFA (including saleable and non-saleable GFA) of approximately 153,759 sq.m. Construction of these properties commenced on April 29, 2005 and was completed on March 7, 2007. The completed properties comprised 698 residential flats with an aggregate saleable GFA of approximately 119,669 sq.m. and 109 retail shops with an aggregate saleable GFA of approximately 19,433 sq.m. As of August 31, 2007, 502 residential flats, with an aggregate saleable GFA of approximately 77,403 sq.m. had been sold and delivered. The remaining completed properties, which includes sold but undelivered properties and unsold properties, comprised 196 residential flats, with an aggregate GFA of approximately 42,266 sq.m. and 109 retail shops with an aggregate GFA of approximately 19,433 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 356,743 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 237,392 sq.m. Construction of these properties commenced on April 29, 2005 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 1,253 residential flats with an aggregate saleable GFA of approximately 227,044 sq.m., as well as 87 retail shops with an aggregate saleable GFA of approximately 4,125 sq.m.

As of August 31, 2007, there was no property held for future development in Yangdong Country Garden.

As of June 30, 2007, the total development costs of Yangdong Country Garden (including the costs of land acquisition and construction) incurred were RMB623.3 million.

Yangdong Country Garden will offer various types of products, including villas, townhouses, low-rise apartment buildings, high-rise apartment buildings and retail shops. This development features a hotel developed to the five-star rating standard, Yangjiang Country Garden Phoenix Hotel, Yanshan Lake City Plaza, a kindergarten and a commercial street.

Yangdong Country Garden has been awarded the title of 2005 Creditworthy Enterprise (2005年守合同重信用企業) by the Yangdong Industrial and Commercial Administration Bureau (陽東縣工商行政管理局) and 2005 Top Ten Best Real Estate Development in Yangjiang (2005年陽江十佳樓盤) by the Top Ten Best Real Estate Judging Committee of Yangjiang Real Estate Conference (陽江房地產高峰論壇暨十佳樓盤評選組委會).

## **Zhaoqing City**

### *Zhaoqing Country Garden (肇慶碧桂園)*

Zhaoqing Country Garden is located in Xiangshan District, Gaoyao City. It is being developed by Gaoyao Biyi Property Development Co., Ltd., a project company in which we hold a 51% interest. This development occupies an aggregate site area of approximately 650,877 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 509,566 sq.m.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 465,300 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 289,166 sq.m. Construction of these properties commenced on September 19, 2006 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 1,391 residential flats with an aggregate saleable GFA of approximately 277,240 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 185,577 sq.m. and had an expected aggregate GFA of approximately 220,400 sq.m.

As of June 30, 2007, the total development costs of Zhaoqing Country Garden (including the costs of land acquisition and construction) incurred were RMB227.9 million.

Zhaoqing Country Garden offers various types of products, including villas, townhouses, low-rise apartment buildings and retail shops, and is expected to offer high-rise apartment buildings in the future. The development will feature a kindergarten, a commercial street and Gaoyao Country Garden Phoenix Hotel (高要碧桂園鳳凰酒店), a hotel built to the five-star standards.

### *Zhaoqing Lanling Residence (肇慶高新區藍領公寓)*

Zhaoqing Lanling Residence is located inside the high-tech industrial park of Dawang District. It is being developed by Zhaoqing Gaoxin Country Garden Property Development Co., Ltd. ("Zhaoqing Country Garden



Co.”), our wholly-owned project company. The project occupies an aggregate site area of approximately 123,593 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 186,257 sq.m.

As of August 31, 2007, there was no completed property in Zhaoqing Lanling Residence.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 123,593 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 186,257 sq.m. Construction of these properties commenced on September 5, 2006 and is expected to be completed in the second quarter of 2008. Upon completion, there will be 4,031 residential flats with an aggregate GFA of approximately 166,141 sq.m., as well as 261 retail shops with an aggregate saleable GFA of approximately 19,659 sq.m.

As of August 31, 2007, there was no property held for future development in Zhaoqing Lanling Residence.

As of June 30, 2007, the total development costs of Zhaoqing Lanling Residence (including the costs of land acquisition and construction) incurred were RMB84.3 million.

Zhaoqing Lanling Residence offers various types of products, including low-rise apartment buildings for rental purpose and retail shops.

## **Shaoguan City**

### *Shaoguan Country Garden (韶關碧桂園)*

Shaoguan Country Garden is located in Lashi Ba, Zhen Jiang District, in the proximity of the commercial center. It is being developed by Shaoguan Shunhong Property Development Co., Ltd. (“Shaoguan Shun Hong Co.”), our wholly-owned project company. This development occupies an aggregate site area of approximately 2,324,623 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 1,482,086 sq.m.

As of August 31, 2007, there was no completed property in Shaoguan Country Garden.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 1,245,200 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 579,182 sq.m. Construction of these properties commenced on January 17, 2007 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 2,685 residential flats with an aggregate saleable GFA of approximately 565,551 sq.m., as well as 70 retail shops with an aggregate saleable GFA of approximately 2,800 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 1,079,423 sq.m. and had an expected aggregate GFA of approximately 902,904 sq.m.

As of June 30, 2007, the total development costs of Shaoguan Country Garden (including the costs of land acquisition) incurred were RMB460.2 million.

Shaoguan Country Garden offers various types of products, including townhouses, low-rise apartment buildings and retail shops, and is expected to offer high-rise apartment buildings in the future. This development will also feature a commercial street and other amenities.

*Lechang Country Garden (樂昌碧桂園)*

Lechang Country Garden is located in Meile Road, Lechang City. It is being developed by Lechang Country Garden Property Development Co., Ltd. The project occupies an aggregate site area of approximately 111,741 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 201,134 sq.m.

As of August 31, 2007, there were no completed property developments or properties under development in Lechang Country Garden.

As of August 31, 2007, the properties held for future development occupied a site area of 111,741 sq.m, with an expected GFA (including saleable and non-saleable) of approximately 201,134 sq.m.

As of June 30, 2007, the total development costs of Lechang Country Garden (including the costs of land acquisition and construction) incurred were RMB12.9 million.

Lechang Country Garden is expected to offer townhouses, low-rise apartment buildings and high-rise buildings in the future. The development will feature a hotel developed to a five star rating standard.

*Shaoguan Country Garden—Sun Palace (韶關碧桂園 • 太陽城)*

Shaoguan Country Garden—Sun Palace is located in Furong Avenue, Wujiang District, Shaoguan City. It is being developed by Shaoguan Country Garden Property Development Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 2,171,441 sq.m. with an expected GFA (including saleable and non-saleable) of approximately 3,734,879 sq.m.

As of August 31, 2007, there were no completed property developments or properties under development at Shaoguan Country Garden—Sun Palace.

As of August 31, 2007, the properties held for future development occupied a site area of 2,171,441 sq.m, with an expected GFA (including saleable and non-saleable) of approximately 3,734,879 sq.m.

As of June 30, 2007, the total development costs of Shaoguan Country Garden—Sun Palace (including the costs of land acquisition and construction) incurred were nil.

Shaoguan Country Garden—Sun Palace is expected to offer townhouses, high-rise apartment buildings and retail shops in the future. It will also feature a hotel developed to a five-star rating standard.

**Huizhou City**

*Huiyang Country Garden (惠陽碧桂園)*

Huiyang Country Garden is located in the industrial district of Huiyang Sanhe Economic Development Zone, Huizhou City. It is being developed by Huizhou Huiyang Qishan Holiday Resorts Development Co., Ltd., a project company in which we hold a 90% equity interest. This development occupies an aggregate site area of approximately 810,025 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 696,657 sq.m.

As of August 31, 2007, there was no completed property in Huiyang Country Garden.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 35,900 sq.m., and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 13,365 sq.m. Construction of these properties commenced on August 16, 2007 and is expected to be completed in

the third quarter of 2008. Upon completion, there will be 28 residential flats, with an aggregate saleable GFA of approximately 9,332 sq.m.,

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 774,125 sq.m. and had an expected aggregate GFA of approximately 683,292 sq.m.

As of June 30, 2007, the total development costs of Huiyang Country Garden (including the costs of land acquisition) incurred were RMB43.9 million.

Huiyang Country Garden offers townhouses and is expected to offer high-rise apartment buildings and retail shops in the future. It will also feature a hotel developed to a five-star rating standard.

## **Shanwei City**

### *Shanwei Country Garden (汕尾碧桂園)*

Shanwei Country Garden is located in the Shanwei City, close to Pinqing Lake. It is being developed by Shanwei Country Garden Property Development Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 309,422 sq.m. with an expected GFA (including saleable and non-saleable) of approximately 759,899 sq.m.

As of August 31, 2007, there were no completed property developments or properties under development at Shanwei Country Garden.

As of August 31, 2007, the properties held for future development occupied a site area of 309,422 sq.m, with an expected GFA (including saleable and non-saleable) of approximately 759,899 sq.m.

As of June 30, 2007, the total development costs of Shanwei Country Garden (including the costs of land acquisition and construction) incurred were nil.

Shanwei Country Garden is expected to offer townhouses and high-rise apartment buildings in the future.

## **Changsha City**

### *Changsha Country Garden (長沙碧桂園)*

Changsha Country Garden is located at the north end of Xingsha Avenue, Changsha County. It is being developed by Changsha Venice Palace Property Development Co., Ltd. ("Changsha Venice Co."), our wholly-owned project company. This project occupies an aggregate site area of approximately 1,724,298 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 1,303,366 sq.m.

As of August 31, 2007, there was no completed property in Changsha Country Garden.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 1,393,500 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 645,718 sq.m. Construction of these properties commenced on September 30, 2005 and is expected to be completed in the third quarter of 2008. Upon completion, there will be 2,233 residential flats with an aggregate saleable GFA of approximately 590,634 sq.m., as well as 53 retail shops with an aggregate saleable GFA of approximately 10,729 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 330,798 sq.m. and had an expected aggregate GFA of approximately 657,648 sq.m.

As of June 30, 2007, the total development costs of Changsha Country Garden (including the costs of land acquisition and construction) incurred were RMB1,194.5 million.

Changsha Country Garden offers various types of products, including villas, townhouses, low-rise apartment buildings and retail shops and is expected to offer high-rise apartment buildings in the future. This development features a hotel built to a five-star standard, bilingual schools and a commercial plaza.

## **Shenyang City**

### *Shenyang Country Garden* (瀋陽碧桂園)

Shenyang Country Garden is located in Huashan Village, Huishan Agricultural High-tech Development Zone. It is being developed by Shenyang Country Garden Property Development Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 211,354 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 314,626 sq.m.

As of August 31, 2007, there was no completed property in Shenyang Country Garden.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 33,198 sq.m., and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 13,942 sq.m. Construction of these properties commenced on July 21, 2007 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 35 residential flats, with an aggregate saleable GFA of approximately 11,039 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 178,156 sq.m. and had an expected aggregate GFA of approximately 300,684 sq.m.

As of June 30, 2007, the total development cost of Shenyang Country Garden (including the costs of land acquisition) incurred were RMB147.6 million.

Shenyang Country Garden offers townhouses and is expected to offer high-rise apartment buildings in the future. The development will feature a hotel developed to a five star rating standard.

### *Country Garden—Sun Palace* (碧桂園 • 太陽城)

Country Garden—Sun Palace is located in Shenbei New District, Daoyi Town, Shangxiao Village, Shenyang City. It is being developed by Shenyang Country Garden Property Development Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 278,132 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 554,300 sq.m.

As of August 31, 2007, there was no completed property in Country Garden—Sun Palace.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 39,300 sq.m., and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 16,928 sq.m. Construction of these properties commenced on July 21, 2007 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 43 residential flats, with an aggregate saleable GFA of approximately 14,030 sq.m.,

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 238,832 sq.m. and had an expected aggregate GFA of approximately 537,372 sq.m.

As of June 30, 2007, the total development costs of Country Garden—Sun Palace (including the costs of land acquisition) incurred were RMB194.1 million.

Country Garden—Sun Palace offers townhouses, and is expected to offer high-rise apartment buildings in the future. The development will feature a hotel developed to a five star rating standard.

*Country Garden—Galaxy Palace (碧桂園 • 銀河城)*

Country Garden—Galaxy Palace is located at Wanghe Road of Yuhong District, Shenyang City, Liaoning Province. It is being developed by Shenyang Hua Rui Zhi Ye Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 293,966 sq.m. with an expected GFA (including saleable and non-saleable) of approximately 731,976 sq.m.

As of August 31, 2007, there were no completed property developments or properties under development in Country Garden—Galaxy Palace.

As of August 31, 2007, the properties held for future development occupied a site area of 293,966 sq.m, with an expected GFA (including saleable and non-saleable) of approximately 731,976 sq.m.

As of June 30, 2007, the total development costs of Country Garden—Galaxy Palace (including the costs of land acquisition and construction) incurred were RMB9.1 million.

Country Garden—Galaxy Palace is expected to offer townhouses and high-rise apartment buildings in the future. It will also feature a hotel developed to a five-star rating standard.

*Country Garden—Phoenix City (碧桂園 • 鳳凰城)*

Country Garden—Phoenix City is located at Dingxiang Street of Sujiatun District, Shenyang City, Liaoning Province. It is being developed by Shengyang Hunnan Xincheng Country Garden Property Development Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 764,399 sq.m. with an expected GFA (including saleable and non-saleable) of approximately 1,422,000 sq.m.

As of August 31, 2007, there were no completed property developments or properties under development in Country Garden—Phoenix City.

As of August 31, 2007, the properties held for future development occupied a site area of 764,399 sq.m, with an expected GFA (including saleable and non-saleable) of approximately 1,422,000 sq.m.

As of June 30, 2007, the total development costs of Country Garden — Phoenix City (including the costs of land acquisition and construction) incurred were nil.

Country Garden—Phoenix City is expected to offer townhouses and high-rise apartment buildings in the future. It will also feature a hotel developed to a five-star rating standard.

**Taizhou City**

*Taizhou Country Garden (泰州碧桂園)*

Taizhou Country Garden is located in the northeast of Hailing District, Taizhou City. It is being developed by Taizhou Country Garden Property Development Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 423,048 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 675,540 sq.m.

As of August 31, 2007, there was no completed property in Taizhou Country Garden.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 69,521 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 34,462 sq.m. Construction of these properties commenced on June 27, 2007 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 83 residential flats, with an aggregate saleable GFA of approximately 31,592 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 353,527 sq.m. and had an expected aggregate GFA of approximately 641,078 sq.m.

As of June 30, 2007, the total development costs of Taizhou Country Garden (including the costs of land acquisition) incurred were RMB154.8 million.

Taizhou Country Garden offers townhouses and is expected to offer high-rise apartment buildings in the future. The development will feature a hotel developed to a five-star rating standard.

### **Hulunbeier City**

#### *Manzhouli Country Garden (滿洲里碧桂園)*

Manzhouli Country Garden is located at the intersection of Xinjia East Road and Hubei Road, Manzhouli City, Inner Mongolia Autonomous Region. It is being developed by Manzhouli Country Garden Property Development Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 764,667 sq.m. and has an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 715,495 sq.m.

As of August 31, 2007, there was no completed property in Manzhouli Country Garden.

As of August 31, 2007, the properties under development occupied an aggregate site area of approximately 164,600 sq.m. and had an expected aggregate GFA (including saleable and non-saleable GFA) of approximately 104,502 sq.m. Construction of these properties commenced on July 23, 2007 and is expected to be completed in the fourth quarter of 2008. Upon completion, there will be 554 residential flats, with an aggregate saleable GFA of approximately 103,152 sq.m.

As of August 31, 2007, the properties held for future development occupied an aggregate site area of approximately 600,067 sq.m. and had an expected aggregate GFA of approximately 610,993 sq.m.

As of June 30, 2007, the total development costs of Manzhouli Country Garden (including the costs of land acquisition) incurred were RMB168.7 million.

Manzhouli Country Garden offers townhouses, low-rise apartment buildings, and is expected to offer high-rise apartment buildings and retail shops in the future. The development will feature a hotel developed to a five-star rating standard and a commercial street.

### **Xing'anmeng**

#### *Xing'anmeng Country Garden (興安盟碧桂園)*

Xing'anmeng Country Garden is located at Keerqin Town of Keyouqianqi, Xing'anmeng, Inner Mongolia Autonomous Region. It is being developed by Keyouqianqi Country Garden Property Development Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 1,259,396 sq.m. with an expected GFA (including saleable and non-saleable) of approximately 2,022,810 sq.m.

As of August 31, 2007, there were no completed property developments or properties under development at Xing'anmeng Country Garden.

As of August 31, 2007, the properties held for future development occupied a site area of 1,259,396 sq.m, with an expected GFA (including saleable and non-saleable) of approximately 2,022,810 sq.m.

As of June 30, 2007, the total development costs of Xing'anmeng Country Garden (including the costs of land acquisition and construction) were nil.

Xing'anmeng Country Garden is expected to offer townhouses and high-rise apartment buildings in the future. It will also feature a hotel developed to a five-star rating standard.

## **Wuhan City**

### *Wuhan Country Garden (武漢碧桂園)*

Wuhan Country Garden is located at Zilin Street of Hannan District, Wuhan City, Hubei Province. It is being developed by Wuhan Country Garden Property Development Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 374,294 sq.m. with an expected GFA (including saleable and non-saleable) of approximately 510,500 sq.m.

As of August 31, 2007, there were no completed property developments or properties under development at Wuhan Country Garden.

As of August 31, 2007, the properties held for future development occupied a site area of 374,294 sq.m, with an expected GFA (including saleable and non-saleable) of approximately 510,500 sq.m.

As of June 30, 2007, the total development costs of Wuhan Country Garden (including the costs of land acquisition and construction) incurred were nil.

Wuhan Country Garden is expected to offer townhouses and high-rise apartment buildings in the future. It will also feature a hotel developed to a five-star rating standard.

## **Xianning City**

### *Xianning Country Garden (咸寧碧桂園)*

Xianning Country Garden is located in Pansizhou of Xian'an District, Xianning City, Hubei Province. It is being developed by Xianning Country Garden Property Development Co., Ltd., our wholly-owned project company. This development occupies an aggregate site area of approximately 666,690 sq.m. with an expected GFA (including saleable and non-saleable) of approximately 1,581,000 sq.m.

As of August 31, 2007, there were no completed property developments or properties under development in Xianning Country Garden.

As of August 31, 2007, the properties held for future development occupied a site area of 666,690 sq.m, with an expected GFA (including saleable and non-saleable) of approximately 1,581,000 sq.m.

As of June 30, 2007, the total development costs of Xianning Country Garden (including the costs of land acquisition and construction) were nil.

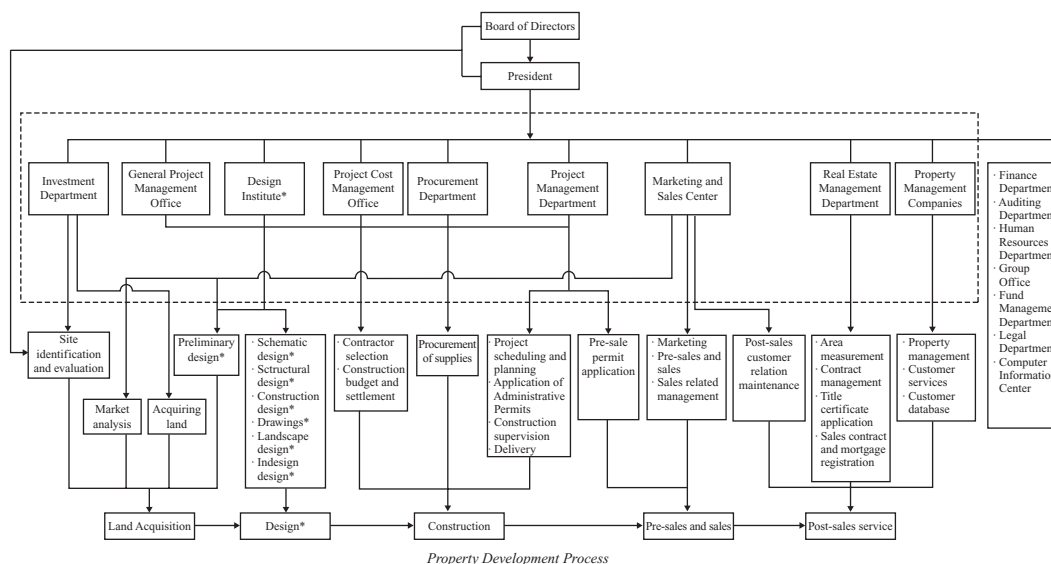
Xianning Country Garden is expected to offer townhouses, high-rise apartment buildings and retail shops in the future.

## PROPERTY DEVELOPMENT

As of August 31, 2007, we had 35 projects at various stages of development. Our properties are located in Guangzhou, Foshan, Jiangmen, Yangjiang, Shaoguan, Zhaoqing, Huizhou and Shanwei in Guangdong Province, Changsha in Hunan Province, Hulunbeier and Xing'anmeng in Inner Mongolia, Taizhou in Jiangsu Province, Shenyang in Liaoning Province and Wuhan and Xianning in Hubei Province. As of August 31, 2007, our projects had an aggregate completed GFA of 6,957,800 sq.m., including 39,671 units to house an estimated 158,000 people, an aggregate GFA under development of 6,771,589 sq.m., as well as an aggregate GFA of 23,934,723 sq.m. relating to properties held for future development. For a profile of our property developments, please refer to the subsection headed “— Description of Our Property Projects” above.

### Our property development and project management procedure

We integrate our resources to conduct land acquisition, planning, project design and construction, sales and post-sales support, and a series of development works. These areas are coordinated and supervised by our central management and carried out by our various functional departments, subsidiaries, and affiliates, giving rise to a highly effective flat management structure. The process is summarized in the following flow-chart, followed by a more detailed description of each stage of the process carried out by our various departments, subsidiaries and affiliates.



*Note:*

\* Our project design work is handled by Elite Architectural Co., an affiliate of our controlling shareholder. Our landscaping and greenery design was handled by Shunde Country Garden Co. before October 2006 and since then has been handled by an independent third party, Foshan Shunde Oasis Greenery Design Co., Ltd.

### Site selection

Site selection is a fundamental step in our property development process. Our investment department, consisting of a team of full-time staff members, is responsible for identifying sites for prospective property development. Our pre-acquisition site visits and investigations, in conjunction with research and analysis, enable us to understand the general trends and specific conditions of target property markets when assessing the suitability for development of a particular site. When selecting sites for our development projects, we usually apply the following criteria:

- geographical location of the development sites, for example, proximity and accessibility to city centers or business districts;



- property market conditions in the vicinity of the development site;
- local urban planning and specifications; and
- estimated cost, investment and financial return.

Our marketing and sales center and our design service providers are involved in the early stages of the site identification process. The marketing and sales center carries out research and analysis relating to potential market demand. Design services, including planning and concept design, are provided by Elite Architectural Co. which is our affiliate and principal design service provider.

Upon completion of the preliminary feasibility studies, our executive Directors become more closely involved in the assessment process by conducting on-site visits before deciding whether to proceed with the acquisition of a site.

Once we have decided to acquire a site, Elite Architectural Co. begins its preliminary site-planning work.

### **Land acquisition**

Prior to July 2002, land use rights could be obtained through a land grant contract from local government authorities. Since July 1, 2002, the PRC government introduced regulations requiring that the land transferred from government authorities be sold by a public tender, auction or listing-for-sale. Prior to submitting a tender, we analyze the market and estimate the budget required to develop the project. To acquire a parcel of land, we first need to be successful in the public tender, auction or the listing-for-sale process.

As of August 31, 2007, we had obtained land use rights for 261 parcels of land in aggregate. We obtained the land use rights to 85 out of the 261 parcels of land prior to July 1, 2002 through land grant contracts or land use rights transfer agreements entered into between the relevant government land administration authorities at or above the county level, or the original grantees of the land use rights, and our PRC subsidiaries. The land use rights of 174 out of the remaining 176 parcels of land were acquired after July 1, 2002 through a public tender, auction or listing-for-sale, and the land use rights for the remaining two parcels of land were acquired after July 1, 2002 through land use rights transfer agreements entered into between the original grantees of the land use rights and our PRC subsidiaries. We have paid in full the land premium or the consideration payable under the land grant contracts and the land use rights transfer agreements regarding the land use rights of these 261 parcels of land, and there is no outstanding land premium or consideration with respect to these parcels of land.

We have been able to acquire land at a relatively low price. Most of the land parcels acquired by us after 2004 have been relatively large in size. Although its unit price may not be high, the total may be substantial. In addition, when these parcels of lands were listed for auction, the property developer would be required to take responsibility for construction of the related infrastructure and urban development. With the additional responsibilities, the entry barrier for pursuing such property projects has been raised. Only those property developers which have strong financial strength, integrated development capability, sound management and operational skills can develop such projects. We believe that there are only a handful of property developers in China which possess such capabilities. Of those developers, there are only a few whose mode of development is same as ours and adopted land acquisition strategies similar to ours. Given the general lack of direct competition, we were able to acquire land at the listing price set by the government. For these reasons, the land acquisition cost for our land has been relatively low.

As of August 31, 2007, we had an aggregate GFA under development and for future development of approximately 30,706,311 sq.m. for which we have obtained the relevant land use rights certificates. We estimate that our current land reserves will be sufficient for our development needs for the next five years or more.

In addition, as of August 31, 2007, our project companies had entered into land grant contracts in respect of land in various cities in Guangdong Province, Changsha City in Hunan Province, Shenyang City and Anshan City in Liaoning Province, Chaohu City and Chizhou City in Anhui Province, Xianning City and Suizhou City in Hubei Province, Chongqing City and Hulunbeier City in Inner Mongolia. with an aggregate site area of approximately 12,327,960 sq.m. for which we have applied or are in the process of applying for land use rights certificates, with an aggregate expected GFA of approximately 21,431,978 sq.m. for future development.

In certain cases where we are interested in acquiring land, we assist local governments in clearing the land and relocate the original residents so that the land is ready for tender, auction and listing-for-sale. In such cases, we enter into land clearance agreements with the relevant land authorities, under which we are reimbursed for expenses we incur for land clearance and relocation and we are entitled to a portion of the profit realized by the local government on the land sale. We do not control the timing of the sale of the land use rights in the land that we have cleared, nor do we set the price for which such land use rights are sold. Sales of the land use rights are conducted by the relevant local government land authorities, through a bidding, auction or listing-for-sale process. If we are interested in bidding for the land, we are required to go through the tender, auction and listing-for-sale process as with other developers and there can be no assurance that we will win the bid. See “Risk Factors—Risks Relating to our Business—We may not receive full compensation for assistance we provide to local governments to clear land for government land sales.

Our ability to acquire land for development is subject to extensive regulations issued by the PRC central and local governments. Further to the requirement of public tender, auction and listing-for-sale, on October 10, 2007, the Ministry of Land and Resources issued a new regulation, which provides that property developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use rights certificate and/or commence development on the land, effective November 1, 2007. As a result, property developers are not allowed to bid for a large piece of land, make partial payment, and then apply for a land use rights certificate for the corresponding portion of land and commence development, which has been the practice in many Chinese cities. The implementation of the regulation will require property developers to maintain a higher level of working capital. We cannot assure you that our cash flow position, financial condition or business plans will not be materially adversely affected as a result of the implementation of this regulation. We believe that larger property developers like ourselves generally are in a better position to compete for large pieces of land because they normally have stronger financial condition.

### **Financing property developments and land premium**

Our financing methods vary from project to project. We are required by PBOC to fund at least 35% of our property developments with internal resources. The balance of the funding generally comes from a combination of bank loans and sales proceeds. We typically use internal funds to pay for the land acquisition costs and use internal funds and project loans from PRC banks to finance the initial construction costs for our property developments. Bank financing therefore is an important source of funding for our property development projects. As of September 30, 2007, our outstanding bank borrowings amounted to RMB 4,606.4 million. Our operations generate additional cash through pre-sales after the properties meet the requirements of pre-sale under PRC regulations. Such proceeds from pre-sales, together with the project loans, are the major sources of funding for the construction of our property developments.

We are a customer of local branches of Agricultural Bank of China, Industrial and Commercial Bank of China, Bank of China, China Construction Bank, China Minsheng Banking Corp. Ltd., Shunde Beijiao Agricultural Credit Union, Guangzhou Panyu Agricultural Credit Union and Citibank, Shenzhen Branch. For five consecutive years from 2002 to 2006, we have been ranked as one of the “Top 20 Creditworthy Property Developers” jointly by the South China Branch of People’s Daily and local branches of the Industrial and Commerce Bank of China, the Agricultural Bank of China, the Bank of China, the China Construction Bank and China Minsheng Bank.

We cannot assure you that we will be able to continue to obtain sufficient bank loans or facilities in the future. See “Risk Factors—Risk Relating to Our Business—We may not have adequate funding resources to finance land acquisitions or property developments, or to service our financing obligations.”

On June 5, 2003, the PBOC published the Notice on Further Strengthening the Management of loans for Property Business (中國人民銀行關於進一步加強房地產信貸業管理的通知), which prohibits commercial banks from advancing loans to fund the payment of land premiums. As a result, property developers may use only their own funds to pay for land premiums. Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks (商業銀行房地產貸款風險管理指引), issued on September 2, 2004, any property developer applying for property development loans must have, as its own working capital, at least 35% of the project capital required for the development.

On March 16, 2005, the PBOC published 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超額準備金存款利率的通知), which states that in the cities and areas where the price of housing increases too quickly, the minimum down payment when securing mortgages on residential properties would, from March 17, 2005, increase from 20% to 30% of the purchase price. Commercial banks can independently determine the percentage of the minimum down payment in accordance with the appreciation in real estate prices in different cities or areas announced by the relevant governmental departments in the PRC.

Following the Opinion on Adjusting the Housing Supply Structures and Stabilizing House Prices (關於調整住房供應結構穩定住房價格意見) promulgated by the State Council on May 24, 2006, the following regulations apply to real estate credit:

- (a) Credit conditions on real estate development must be strictly imposed in order to deter real estate development enterprises from using bank loans to store land and housing development sources. Commercial banks may not provide loans to real estate development enterprises that fail to meet loan conditions, such as having less than 35% of the project capital required for the development. For real estate development enterprises that have plenty of idle land and vacant commodity housing developments, commercial banks must, in the interests of prudent operations, be stricter in renewing their loans or any form of rolling credit. Commercial banks may not accept as additional security for loans any commodity housing development that has been idle for three or more years.
- (b) From June 1, 2006, the down payment made when securing a mortgage of residential property may not be less than 30% of the purchase price. However, considering the high demand for housing from people in low and medium income levels, the down payment for a mortgage of residential property shall be not less than 20% of the purchase price where the residential property has a total floor area of 90 sq.m. or less.

On September 27, 2007, the PBOC and the CBRC further increased the minimum down payment for purchasers of second homes from 30% to 40% of the purchase price regardless of the size of the second home, if the purchaser obtained his or her first home through a mortgage. Moreover, the mortgage loan rates for subsequent mortgages are required to be not less than 1.1 times the corresponding PBOC benchmark lending rates.

According to the Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market (關於規範房地產市場外資準入和管理的意見), issued jointly by the Ministry of Construction, the PRC Ministry of Commerce (“MOFCOM”), NDRC, PBOC, SAIC and SAFE, real estate development enterprises owned at least in part by a foreign investor will not be allowed to obtain a loan in or outside the PRC if they have not fully paid up their registered capital, or have failed to obtain a land use rights certificate, or have less than 35% of the project capital required for a development. Furthermore, SAFE departments are not permitted to approve any registration of overseas loans that have been made to such foreign-invested real estate development enterprises.

The commercial banks in the PRC have imposed strict requirements upon our project companies, requiring the project companies to obtain land use rights certificates and to have at least 35% of the project

capital required for a development before a loan will be granted. Our project companies have satisfied the above requirements in their applications for loans and have passed the approval process of the mortgage bank.

Further, following the publication of the notice, we have paid land premiums from the proceeds from the sale of properties and not from any of our outstanding bank borrowings. We plan to continue to use the proceeds from the sale of our properties, our other internal funds and proceeds from capital market financing to finance our future land premium payments.

### **Project design work**

Our general design work is mainly undertaken by Elite Architectural Co., which is an affiliate of our controlling shareholder and is providing services to us on a priority basis. In 2004, 2005 and 2006 and the six months ended June 30, 2007, all of our project design work was provided by Elite Architectural Co. Our landscaping and greenery design was handled by Shunde Country Garden Co. until October 2006 and since has been handled by Foshan Shunde Oasis Greenery Design Co., Ltd., an independent third party. As of June 30, 2007, all of our project design work and landscaping and greenery design were provided by Elite Architectural Co. and Foshan Shunde Oasis Greenery Design Co., Ltd, respectively.

The design companies become involved in planning research and preliminary design work for a development project at the site selection and land acquisition stages. When determining the design of a particular property development, the designers and engineers generally consider the recommendations of our marketing and sales center regarding product mix, project location and market conditions, as well as the regulatory requirements regarding the design. Involving the design companies at an early stage allows for the formulation of a preliminary design when we are negotiating with the government, enabling us to commence construction shortly after the requisite approval to develop a parcel of land has been granted. The overall time needed to complete the development is therefore reduced.

### **Construction work and procurement**

#### *Construction work*

The construction phase of a development project begins once we obtain the Construction Permit for the project. The General Project Management Office is responsible for the overall coordination and allocation of responsibilities in respect of the construction of each project area at different stages and supervises the progress of construction work. Prior to that, our Project Cost Management Office prepares the overall budget for a development at different stages. We set up a project company for each project to manage the whole property development project. The project company has a project manager, a project management department, a finance department and a sales department, all of which report to their corresponding functional departments at our headquarters.

Giant Leap Construction Co., our wholly-owned subsidiary, currently undertakes most of the construction work for our development projects in Guangdong Province. For the year ended December 31, 2006 and the six months ended June 30, 2007, construction costs attributable to Giant Leap amounted to 51.4% and 61.2%, respectively, of our total construction costs. In most cases, we prefer Giant Leap Construction Co. over other construction companies. Apart from a few related parties and other third parties, we are the principal customer of Giant Leap Construction Co.

As we develop more property projects outside Guangdong Province, we expect to outsource more construction work to third party contractors to leverage on their local expertise. In addition, when Giant Leap Construction Co. does not have adequate resources to deal with a particular development or when the projected profits from a project are not economically attractive, we outsource project construction work in whole or in part to independent third parties. In such outsourcing cases, we select construction contractors through a tender process organized by our project cost management department.

Under PRC national laws and regulations, a tender process is usually required to select the contractors for public construction projects. When a tender process is required for one of our projects, the Tender Law of the

PRC (中華人民共和國招標投標法) will apply. Certain local governments in Guangdong Province may require that all construction projects go through a tender process.

Because of the growth in the number of our projects and their geographical coverage, we expect that we will increasingly engage the services of independent construction contractors. See “Risk Factors—Risks relating to Our Business—We will be increasingly affected by independent contractors.” Without any long-term construction outsourcing contracts in place, we intend to work with a number of qualified contractor candidates in order to create a competitive environment among them.

### *Procurement*

Currently, most of the construction work for our projects is undertaken by Giant Leap Construction Co., our wholly-owned subsidiary. Most of the supplies, including equipment and material, for our construction work undertaken by Giant Leap Construction Co. are centrally procured through our procurement department. Our procurement department typically solicits price quotes from at least two prospective suppliers, negotiates the price and other terms with them and finalizes the purchase arrangements with the winning supplier by signing price confirmations for regular supplies and executing procurement contracts for major equipment and constructions. Each transaction is initiated by a purchase order from our procurement department, and the suppliers are asked to deliver the supplies to locations specified by the relevant project companies or to our central warehouse, which has a computerized record-keeping system for inventory. Our centralized procurement system gives us more bargaining power and better cost control, enabling us to benefit from economies of scale.

When we outsource the construction work for a project to a third party contractor, the contractor generally undertakes the procurement of key construction materials such as steel, cement, sand and stone according to the specifications provided in the construction contract. The total contractor fee takes into account the costs of these materials and the construction contract typically allows adjustment to the total contractor fees if at the time of purchases, the prices of such construction materials have fluctuated beyond the range stipulated in the construction contract.

### **Fitting and decoration work**

The finishing of most of our projects includes fitting and decoration in accordance with the standards set out in our design specifications for the project. Our wholly-owned subsidiary, Finest Decoration Co., provides most of the fitting and decoration services for our projects. Finest Decoration Co. will continue to provide fitting and decoration services exclusively for our projects in the future. We also outsource some components of the fitting and decoration work to independent third parties through a tender process.

### **Quality control**

We have established procedures to ensure that the quality of our properties and services complies with relevant regulations and meets market standards. Quality control procedures are implemented by the relevant functional departments as well as by each project company. For each property development project, quality inspections and regulatory compliance reviews are carried out by the construction company, construction supervisory companies and the project management department.

In accordance with the PRC regulations, we engage the services of PRC-qualified third-party construction supervisory companies to supervise the construction of our property developments. These construction supervisory companies oversee, under a construction supervision contract, the progress and quality of the construction work of a property development throughout the construction phase.

We select construction supervisory companies through a tender process. In the past, we have often engaged Guangzhou Construction Supervision Co., Ltd (廣州建築工程監理有限公司), Guangzhou Jianfa Supervision Co.,

Ltd (廣州市建發監理有限公司), and Guangdong Jianke Construction Supervision Co., Ltd (廣東建科建設監理有限公司), to supervise our property developments.

### **Pre-sales**

Pre-sale of our property units commences before the completion of a project or a project phase. Under the Law of the Administration of Urban Real Estate of the PRC and the Administrative Measures governing the Pre-sale of Urban Real Estate (城市商品房預售管理辦法), as amended in 2001 and 2004, we must comply with the following conditions before pre-sales of a particular property can commence:

- the land premiums must have been fully paid and the land use rights certificates must have been obtained;
- the construction works planning permit and construction project building permit must have been obtained;
- the funds contributed to the development of the property developments where property units are to be pre-sold must reach 25% or above of the total amount to be invested in the project, the project must comply with the relevant governmental regulations and the expected completion date and delivery date of the construction work must have been ascertained; and
- pre-sale permits must have been obtained from the county-level construction bureau or real estate administration authority.

We comply with the relevant governmental regulations in respect of the use of pre-sales proceeds in all material respects. The proceeds from the pre-sales of our properties must be deposited in escrow accounts. Before the completion of the pre-sold properties, the monies deposited in these escrow accounts may only be used to purchase construction material and equipment, make interim construction payments and pay taxes, subject to prior approval from the relevant local authorities. See the section headed “Regulation” for further information on regulations that relate to pre-sales. As of June 30, 2007, we were in compliance, in all material respects, with the relevant laws and regulations applicable to the pre-sale of properties in the PRC.

### **Marketing and sales**

Our marketing and sales center is responsible for formulating and implementing our marketing and sales strategies. We support our marketing and sales activities through cooperation with external professional marketing and sales service providers. As of June 30, 2007, our marketing and sales team comprised 866 employees. Our marketing and sales budget is usually set at approximately 3% of our recognized revenue.

Our marketing and sales center is involved in our property development starting from the early stages and provides its input at key steps. When a potential project is identified by our investment department, our marketing and sales center conducts local property market research and studies the government’s land policies. Before we decide to acquire land, our marketing and sales center provides the results of the research and analysis of the relevant land. During the land acquisition process, our marketing and sales center provides suggestions on the site plan and design and assist the Company in the design preparation. Once the construction work is underway, our marketing and sales center proceeds to adjust our products and fitting and decoration works according to customer interest.

Each sales consultant is responsible for following through the entire sales process with his customers and helping the customers deal with our other departments in charge of different aspects of project development and management. Our sales team regularly provides customer feedback to Elite Architectural Co. and other departments for future improvements.

## Customers

While the local residents in Guangdong Province constitute our core customer base, we have also generated demand from residents in Hong Kong, Macau and neighboring provinces. We target a broad base of customers with varied income levels and backgrounds, with customers with middle and upper level incomes our primary targets.

## Payment arrangements

Our customers, including those making pre-sales purchases, can pay with mortgage facilities arranged with banks. The mortgage payment terms for sales and pre-sales of properties are substantially the same. All purchasers are required to make a down payment of at least 20% of the purchase price when executing a purchase contract. A maximum 30-year mortgage loan for up to 80% of the purchase price may be available from the mortgage banks to the purchasers who are required to settle such amount within one month following the execution of the sales and purchase contract.

If purchasers choose not to finance their purchase with mortgage loan facilities, those not purchasing from pre-sale are required to pay the purchase price in full at the time of the execution of the purchase contract. In the case of a pre-sale, 90% of the purchase price (including the amount of down payment) must be paid within two months following the signing of the contract, and the balance of 10% of the purchase price is payable no later than one month prior to the delivery of the property.

In accordance with market practice, we provide guarantees to banks for the repayment of the mortgage loans offered to our customers. Such guarantees are divided into short-term and long-term guarantees. Currently, our short-term guarantees are released upon the earlier of the issuance of the individual property ownership certificate (房產所有權證) to the owner of the property or the certificate of other rights of property (房地產他項權利證) to the mortgage bank by the relevant housing administration department, which are generally available within three months after we deliver the relevant property to our customers, or the full settlement of the mortgaged loan by our customers. Prior to 2003, we also provided long-term guarantees for the mortgage loans of some of our customers. These long-term guarantees were provided to increase confidence of the mortgage banks in providing mortgages to our customers in the then less sophisticated PRC property market. These guarantees are discharged two years from the day the mortgaged loans become due.

In line with customary practice in the industry, we do not conduct independent credit checks on our customers but rely on the credit checks conducted by the mortgage banks. As of December 31, 2004, 2005 and 2006, and June 30, 2007, our outstanding guarantees of the mortgage loans of our customers amounted to RMB3,183.1 million, RMB3,213.8 million, RMB5,822.7 million and RMB6,918.6 million, respectively. As of June 30, 2007, RMB662.3 million of the total outstanding guarantees are long-term guarantees. As of December 31, 2004, 2005 and 2006, and June 30, 2007, defaults in relation to the mortgage loans taken out by our customers and secured by our guarantees amounted to RMB13.3 million, RMB15.6 million, RMB13.4 million and RMB4.1 million, respectively. Historically, we have not experienced material losses due to default of purchases on the mortgages loans. See “Risk Factors—Risk Relating to Our Business—We guarantee the mortgages provided to our purchasers and consequently are liable to the mortgage banks if our purchasers default on their mortgage payments.”

## PROPERTY MANAGEMENT

Through our wholly-owned property management subsidiary, Guangdong Management Co., we provide post-sales property management and services to the residents of each of the projects we developed. Our property management subsidiary also provides services to certain projects that were not included among our projects in the Reorganization. As of June 30, 2007, we had approximately 13,344 staff members working for our 22 property management branches. We aim to continue to provide to purchasers of our properties comprehensive post-sales property management and services, including public security and assistance with the management of public order, maintenance of public facilities, cleaning of public areas, domestic assistance, gardening and

landscaping, intra-community shuttle bus operations and other customer services. We have established a market reputation for the quality of these services. For example, Guangdong Management Co. has been certified by the Ministry of Construction as a class-one property management company, the highest level a PRC property management company can achieve.

The typical property management contract entered into by our property management companies and the owners of the properties sets out the scope and the quality requirements of the services provided by our property management companies. We prepare maintenance and renovation plans for the properties and public facilities that we manage. We are not permitted by law to assign the management duties in their entirety to a third party. However, we can outsource some of the responsibilities, such as cleaning and security services, to independent third parties. The property management contracts also set out the management fee arrangements. We may not increase management fees without the prior consent of a majority of the owners of the properties.

Under PRC law, owners have a right to engage or dismiss a property management company with the consent of more than half of the owners who in the aggregate hold more than 50% of the total non-communal area of the building. See “Risk Factors—Risk Relating to Our Business—Our branding and marketing strategy as well as our financial condition could be adversely affected if owners of the projects that we have developed elect to stop using us to provide property management services.”.

## **HOTEL DEVELOPMENT AND OPERATION**

Certain residential communities developed or to be developed by us include hotel and resort operations. Our hotel operations own and operate two five-star hotels, one four-star hotel and three hotels which we have developed in accordance with the five-star standard of the “Star-Rating Standard for Tourist Hotels.” In addition, we have five hotels that are under construction in accordance with the five-star standard of the “Star-Rating Standard for Tourist Hotels.” Under PRC laws, hotels cannot apply for star hotel certification until after one year of operations. We intend to apply for such star hotel certification for all our hotels after their first year of operations.

While we believe that the demand for luxury hotels in Guangdong Province will increase as the economy of the region continues to grow and that our hotels and resorts will generate recurrent income for us in the long run, we do not place significant emphasis on the revenue or profit contributions from our hotel business on a stand-alone basis. Rather, we believe that our hotel business assists in enhancing our brand name recognition in the real estate market and contributes to our overall marketing and sales strategies for, and the overall value of, our residential projects.

The availability of our hotel facilities to the residents of our property projects is usually seen as an attractive feature by potential purchasers of our properties.

Our commitment to building and running hotels in certain localities has received support from local governments, which seek to improve the local investment environment and attract more tourist traffic and business establishments to their jurisdictions.



The table below sets out details of our hotel developments and operations.

<u>Name of Hotel</u>	<u>Location</u>	<u>Date opened / to be opened</u>	<u>Star-rating<sup>(1)</sup></u>	<u>Number of Rooms</u>
<b>With Land use rights certificates</b>				
Shunde Country Garden Holiday Resort (順德碧桂園度假村)	Shunde Country Garden, Foshan, Guangdong Province	February 2000	Four-star (in operation)	152 rooms
Guangzhou Country Garden Phoenix City Hotel (廣州碧桂園鳳凰城酒店)	Country Garden Phoenix City, Guangzhou, Guangdong Province	November 2003	Five-star (in operation)	573 rooms
Qingyuan Country Garden Holiday Islands Hotel (清遠市碧桂園假日半島酒店)	Qingyuan Holiday Islands Country Garden, Qingyuan, Guangdong Province	December 2004	Five-star (in operation)	201 rooms
Heshan Country Garden Phoenix Hotel (鶴山碧桂園鳳凰酒店)	Heshan Country Garden, Jiangmen, Guangdong Province	July 2005	According to five-star rating standard (in operation) <sup>(2)</sup>	111 rooms
Wuyi Country Garden Phoenix Hotel (五邑碧桂園鳳凰酒店)	Wuyi Country Garden, Jiangmen, Guangdong Province	December 2005	According to five-star rating standard (in operation)	95 rooms
Yangjiang Country Garden Phoenix Hotel (陽江碧桂園鳳凰酒店)	Yangjiang Country Garden, Yangjiang, Guangdong Province	May 2007	According to five-star rating standard (in operation)	342 rooms
Changsha Venice Palace Hotel (長沙威尼斯酒店)	Venice Palace, Changsha, Hunan Province	October 2007	According to five-star rating standard (under construction)	343 rooms
Taishan Country Garden Phoenix Hotel (台山碧桂園鳳凰酒店)	Taishan Country Garden, Jiangmen, Guangdong Province	December 2007	According to five-star rating standard (under construction)	337 rooms
Xinhui Country Garden Phoenix Hotel (新會碧桂園鳳凰酒店)	Xinhui Country Garden, Jiangmen, Guangdong Province	October 2008	According to five-star rating standard (under construction)	374 rooms
Gaoming Country Garden Phoenix Hotel (高明碧桂園鳳凰酒店)	Gaoming Country Garden, Foshan, Guangdong Province	February 2009	According to five-star rating standard (under construction)	357 rooms

<u>Name of Hotel</u>	<u>Location</u>	<u>Date opened / to be opened</u>	<u>Star-rating<sup>(1)</sup></u>	<u>Number of Rooms</u>
Gaoyao Country Garden Phoenix Hotel (高要碧桂園鳳凰酒店)	Gaoyao Country Garden, Zhaoqing, Guangdong Province	May 2009	According to five-star rating standard (under construction)	286 rooms

Notes: (1) Hotels are only allowed to apply for star hotel certification after one year of operation.  
(2) The phase-two project is under construction and expected to open in May 2008.

Heshan Country Garden Phoenix Hotel has commenced the process to apply for the five-star rating in August 2006, respectively. Heshan Phoenix Hotel is in the process of applying to Jiangmen Municipal Tourism Bureau. Its application will be subject to review by the Guangdong Province Hotel Star-rating Assessment Committee and the Star-Rating Committee under the China National Tourism Administration.

## COMPETITION

The property industry in the PRC is highly competitive. Competitive factors include the size of land reserves and the geographical location, the types of properties offered, recognition by customers, brand creditworthiness, price and design qualities. Our existing and potential competitors include major domestic state-owned and private property developers in the PRC, and, to a lesser extent, property developers from Hong Kong and elsewhere in Asia. A number of our competitors have greater financial, marketing, land and other resources than we have, as well as greater economies of scale, broader name recognition, a longer track record and more established relationships in certain markets. We believe our principal competitors include China Vanke Co., Ltd. (萬科企業股份有限公司), Agile Property Holdings Limited (雅居樂地產控股有限公司), Guangzhou R&F Properties Co., Ltd. (廣州富力地產股份有限公司) and Hopson Development Holdings Limited (合生創展集團有限公司) because they have a presence in the regions in which we operate. For more information on competition, please refer to the section headed “Risk Factors—Risks Relating to Our Business—Increasing competition in the PRC, particularly in Guangdong Province, may adversely affect our business and financial condition.”

## INTELLECTUAL PROPERTY RIGHTS

Shunde Country Garden Co. has registered the trademarks and service marks of “碧桂園” in the form of Chinese characters, as well as in the form of logos, with the PRC Trademark Office (中華人民共和國商標局) under various categories including construction, realty leasing, realty management and realty agency.

On March 27, 2007, Shunde Country Garden Co. entered into a trademark license agreement with each of Qingyuan Country Garden Co., Jun’an Golf Club Co. and our original shareholders to grant a non-exclusive right to use the “碧桂園” and certain other trademarks and service marks in respect of their businesses which, apart from Qingyuan Country Garden Co.’s business, are services ancillary to the housing properties constructed by us. Qingyuan Country Garden Co. has also granted Holiday Islands Hotel Co., our wholly-owned subsidiary, a non-exclusive right to use the trademarks and service marks of “假日半島 Holiday Islands” (with respect to which Qingyuan Country Garden Co. has applied to register as a trademark in the PRC) in its business operation pursuant to a trademark license agreement entered into between Qingyuan Country Garden and Holiday Islands Hotel Co. dated March 27, 2007.

We are also the owner of the domain names “bgy.cn”, “bgy.com.cn”, “countrygarden.cn” and “countrygarden.com.cn.”

## INSURANCE

We maintain public liability and assets insurance policies for our properties, the common facilities and the hotel operating areas of our properties. In addition, we carry social insurance for our employees, and our property management subsidiaries also maintain property management liability insurance coverage in connection with their business operations. We do not, however, maintain insurance coverage for non-performance of contract during construction and other risks associated with construction and installation works during the construction period. Consistent with what we believe to be customary practice in the property development industry in China, we also do not maintain insurance against other personal injuries or property damage that may occur during the construction of our properties, except that we carry accidental insurance (i.e., employer's liability insurance) against personal injuries that may occur to construction workers.

To help ensure construction quality and safety, we have a set of standards and specifications for the construction workers to comply with during the construction process. We engage qualified supervision companies to oversee the construction process. Under PRC law, 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 it is not at fault. Since we have taken the above steps to prevent construction accidents and personal injuries, we believe that we will generally be able to demonstrate that we were not at fault as the property owner if a personal injury claim is brought against us.

We believe that we have sufficient insurance coverage in place and that the terms of our insurance policies are in line with industry practice in the PRC. However, there is a risk that we do not have sufficient insurance coverage for losses and damages that may arise in our business operations. See "Risk Factors—Risks Relating to Our Business—We do not have insurance to cover potential losses and claims in our operations" and "Regulation".

## EMPLOYEES

As of December 31, 2004, 2005 and 2006, and as of June 30, 2007, we had 13,855, 16,866, 17,968 and 21,292 full-time employees, respectively. The following table provides a breakdown of our employees by responsibilities as of June 30, 2007:

Administration and Human Resources Management	143
Marketing and Sales	866
Finance Management	320
Property Project Management	695
Construction and Decoration Management	4,218
Property Management	13,344
Hotel	1,706
	<u>21,292</u>

As of June 30, 2007, approximately 4,222 of our full-time employees had post secondary education. 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 a 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 labor 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 the operations of our business had occurred.

## **ENVIRONMENTAL MATTERS**

PRC environmental laws and regulations provide that if a construction project includes environmental facilities, such facilities will have to pass the inspection of the environmental authorities and an inspection approval must be obtained before the environment facilities can start to operate. If a construction project does not include any environmental facilities, no such approval is required.

As advised by our PRC legal advisor, our business is the property development and related business which does not require environmental facilities be constructed. Therefore, no approval from the environmental authorities is necessary. Instead, each property project developed by us is required under the PRC environmental laws and regulations to undergo an environmental assessment before commencement of construction. See “Risk Factors—Risks Relating to Our Business—Potential liability for environmental problems could result in substantial costs” for further information.

As of June 30, 2007, we had not breached any applicable environmental laws and regulations which has led to penalties imposed by the environmental authorities and there are no existing material legal proceedings, arbitrations or administrative penalties against us.

## **LEGAL PROCEEDINGS**

From time to time, we have been involved in legal proceedings or other disputes in the ordinary course of our business which are primarily disputes with our customers, and we have not incurred significant legal costs and expenses in relation to our overall operating results. We are not aware of any other material legal proceedings, claims or disputes currently existing or pending against us that may have a material adverse impact on our business or our results of operations.

## REGULATION

### I. LEGAL SUPERVISION RELATING TO REAL ESTATE SECTOR IN THE PRC

#### A. Establishment of a Real Estate Development Enterprise

Pursuant to the “Law of the People’s Republic of China on Administration of Urban Real Estate” (the “Urban Real Estate Law”) enacted by the Standing Committee of the National People’s Congress on July 5, 1994, effective in January 1995 and as amended on August 30, 2007, a real estate developer is defined as “an enterprise which engages in the development and sale of real estate for the purposes of making profits.” Under the “Regulations on Administration of Development of Urban Real Estate” (the “Development Regulations”) enacted by the State Council and enforced on July 20, 1998, a real estate development enterprise must satisfy the following requirements: (1) have a registered capital of not less than RMB1 million and (2) have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom shall hold the relevant qualifications. The Development Regulations also stipulated that people’s governments of the provinces, autonomous regions and/or municipalities directly under the central government may impose more stringent requirements regarding the registered capital and qualifications of professional personnel of a real estate development enterprise according to the local circumstances. Pursuant to the “Regulations on Real Estate Developments of Guangdong Province”, revised by the Standing Committee of Guangdong Provincial People’s Congress and enforced on October 16, 1997, the self-owned current capital of a real estate development enterprise in Guangdong Province (“Guangdong”) shall not be less than RMB3 million, and real estate development enterprises with different qualification classifications should comply with their respective requirements of full-time professional technicians. Pursuant to the “Regulations on Real Estate Developments of Hunan Province”, enacted by the People’s Government of Hunan Province on April 12, 2006 and enforced on June 1, 2006, the registered capital of a real estate development enterprise in Hunan Province (“Hunan”) shall not be less than RMB4 million, and real estate development enterprise with different qualification classification should comply with their respective requirements of full-time professional technicians.

Pursuant to the Development Regulations, application for registration has to be submitted to the department of administration of industry and commerce for the establishment of a real estate development enterprise. The real estate development enterprise must file for record with the real estate development authority in the location of the registration authority, within 30 days of the receipt of its Business License.

Under the “Notice on Adjusting the Portion of Capital Fund for Fixed Assets Investment of Certain Industries” issued by the State Council on April 26, 2004, the minimum internal capital ratio for property projects (excluding economically-affordable housing projects) was increased from 20% to 35%.

#### B. Foreign-invested Real Estate Development Enterprises

Pursuant to the “Foreign Investment Industrial Guidance Catalogue” (the “Industrial Guidance Catalogue”) jointly enacted by the Ministry of Commerce and the National Development and Reform Commission on November 30, 2004 and enforced on January 1, 2005, the development and construction of ordinary residential units falls within the category of “encouraged industry”; the development of a whole land lot which shall be operated only by Sino-foreign equity joint venture or Sino-foreign co-operative joint venture, and the construction and operation of high-end hotels, villas, premium office buildings, international conference centers and large theme parks fall within the category of “restricted industry”; other types of real estate development fall within the category of “permitted industry.” Foreign-invested real estate development enterprises can be established in the form of Sino-foreign equity joint venture, Sino-foreign co-operative joint venture or wholly-owned foreign enterprise according to the Industrial Guidance Catalogue and other laws and administrative regulations relating to foreign investment enterprises. Prior to the application for registration to the department of administration of industry and commerce, the enterprise must be approved by the authorities of commerce and obtain an Approval Certificate for a Foreign Investment Enterprise.

On July 11, 2006, the PRC Ministry of Construction, the PRC Ministry of Commerce, the National Development and Reform Commission, the PBOC, the State Administration of Industry and Commerce and the State Administration for Foreign Exchange jointly enacted the “Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market” (Jianzhufang [2006] No. 171). According to this Circular, the foreign investment in real estate market must comply with the following requirements:

(a) Foreign institutions or individuals purchasing real estate in China that is not for their own use shall follow the principle of commercial existence and apply for establishment of foreign investment enterprises under the regulations of foreign investment in real estate. The foreign institutions and individuals can only carry on their business pursuant to the approved business scope after obtaining the approvals from the relevant authorities and upon completion of the relevant registrations.

(b) If the total investment of a foreign-invested real estate development enterprise exceeds or equals to US\$10 million, the registered capital must not be less than 50% of the total investment. If the total investment is less than US\$10 million, the amount of the registered capital shall follow the existing regulations.

(c) For the establishment of a foreign-invested real estate development enterprise, the commerce authorities and the department of administration of industry and commerce are in charge of granting approval for establishment and effecting registration of the foreign-invested real estate development enterprise and issuing the Approval Certificate for a Foreign Investment Enterprise and the Business License which are only effective for one year. After paying for the land use right, the enterprises should apply for the land use rights certificate by presenting the above-mentioned certificate and license. With the land use rights certificate, the enterprises will receive an official Approval Certificate for a Foreign Investment Enterprise from the commerce authorities, and shall replace the business license with one that has the same operational term as the formal Approval Certificate for Foreign Investment Enterprise in the department of administration of industry and commerce, and then it shall apply for tax registration with the tax authorities.

(d) Transfers of projects of or shares in foreign-invested real estate development enterprises, and the acquisitions of domestic real estate development enterprises by foreign investors should follow strictly the relevant laws, regulations and policies to obtain the approvals. The investor should submit: (a) the guarantee letters for the performance of the State-owned Land Use Right Grant Contracts, Construction Land Planning Permit and Construction Work Planning Permit; (b) Certificate of Land Use Right; (c) the certification on alteration of archival files issued by construction authorities; and (d) the certification on the payment of tax issued by the relevant tax authorities.

(e) While merging and acquiring domestic real estate development enterprises by way of share transfer or other means, or the purchase of shares from the Chinese party in a Sino-foreign equity joint venture, the foreign investors shall properly resettle the employees, settle the bank loans and pay all the consideration at one time with its internal fund. The foreign investors with unfavorable financial record shall not be allowed to conduct any of the aforesaid activities.

On August 14, 2006, the General Office of MOFCOM enacted the “Notice on Relevant Issues concerning the Carrying out Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market.” According to the Notice, if the total investment of a foreign-invested real estate development enterprise exceeds US\$3 million, the registered capital must not be less than 50% of the total estimated investment; if the total investment is less than or equal to US\$3 million, the registered capital must not be less than 70% of the total estimated investment. When a foreign investor who merges with a domestic real estate development enterprise by transferring equity or by purchasing equity from other Chinese shareholders of a foreign-invested real estate development enterprise, bank debt of the merged companies must be settled before the merger and the entire consideration for the transfer must be paid off within three months after the earlier of the issue of the business license or the effective day of the share transfer agreement.

On May 23, 2007 the MOFCOM and the SAFE jointly issued the “Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in Real Estate Sector in the PRC” which stipulates the following requirements for the approval and supervision of foreign investment in real estate sector:

- foreign investment in the PRC real estate sector relating to luxury properties should be strictly controlled;
- before obtaining approval for the establishment of real estate entities with foreign investment, (i) both the land use right certificates and housing ownership right certificates should have been obtained or, (ii) contracts for obtaining land use rights or housing ownership rights should have been entered into;
- entities which have been set up with foreign investment, an approval is required before expanding their business operations to include real estate development, and entities which have been set up for real estate development operations will need to obtain a new approval in order to expand their real estate business operations;
- acquisitions of real estate entities and foreign investment in the real estate sector by way of “round-trip” investment 返程投資 should be strictly regulated. Foreign investors should not avoid approval procedures by changing actual controlling persons;
- parties to real estate entities with foreign investment, are not allowed to offer any fixed return on the investment;
- registration shall be immediately effected according to applicable laws with the Ministry of Commerce after the local PRC governmental authorities approved the establishment of a foreign-invested real estate entity;
- foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not effectuate foreign exchange settlements regarding capital account items to those who fail to file with the Ministry of Commerce or fail to pass the annual reviews; and
- for those real estate entities which wrongfully approved by local authorities for their establishment, (i) the Ministry of Commerce should carry out an investigation and order punishment and corrections, and (ii) foreign exchange administrative authorities should not carry out foreign exchange registrations for such entities.

On July 10, 2007, the General Affairs Department of the SAFE issued the “Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment That Have Properly Registered with the MOFCOM.” This new regulation restricts the ability of foreign-invested real estate companies to raise funds offshore for the purposes of injecting such funds into the companies by way of shareholder loans. The notice stipulates, among other things that:

- SAFE will no longer process foreign debt registration or applications for purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained authorization certificates from and registered with the MOFCOM on or after June 1, 2007; and
- SAFE will no longer process foreign exchange registrations (or change of such registrations) or applications for sale and purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained approval certificates from local government commerce departments on or after June 1, 2007 but who have not registered with the MOFCOM.

### **C. Qualifications of A Real Estate Developer**

#### ***(a) Classifications and assessment of a real estate development enterprise’s qualification***

Under the Development Regulations, a real estate developer must file for the record of its establishment to the real estate development authority in the location of the registration authority within 30 days after receiving its business license. The real estate development authority shall assess the qualification classification of the real

estate developer which is filing for record by considering its assets, professional personnel and development and operation records. A real estate development enterprise shall only engage in real estate development projects in compliance with its approved qualification.

Under the “Provisions on Administration of Qualifications of Real Estate Developers” (the “Provisions on Administration of Qualifications”) enacted by the Ministry of Construction and entered into force on March 29, 2000, a real estate developer shall apply for registration of its qualifications according to the Provisions on Administration of Qualifications. An enterprise may not engage in the development and sale of real estate without a qualification classification certificate for real estate development.

In accordance with the Provisions on Administration of Qualifications, a real estate development enterprise is classified into four classes of qualification: class 1, class 2, class 3 and class 4. Different classes of qualification should be examined and approved by the corresponding authorities. The class 1 qualification shall be subject to preliminary examination by the construction authority under the people’s government of the relevant province, autonomous region or municipality directly under the central government with final approval granted by the construction authority under the State Council. Procedures for assessing class 2 or lower qualifications developers 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 which passes the qualification examination will be issued with a qualification certificate of the relevant class by the qualification assessment authority. After a newly established real estate developer reports its establishment to the real estate development authority, the latter shall issue a provisional qualification certificate to the eligible developer within 30 days of receipt of the report. The provisional qualification certificate shall be effective for one year from the date of its issuance. The real estate development authority can extend the validity period for not more than two years after considering the actual business situation of the enterprise. The real estate developer shall apply for a qualification classification by the real estate development authority within one month before the expiry of the provisional qualification certificate.

According to the “Regulations on Real Estate Developments of Guangdong Province”, a developer who aims to establish a real estate development enterprise should obtain an approval from the provincial or city people’s government or the construction authority authorized by them, and shall apply for the issue of a qualification certificate in accordance with the rules. The qualifications of real estate development enterprises are classified into four classes: class 1, class 2, class 3 and class 4.

Under the “Regulations on Real Estate Developments of Hunan Province”, real estate development enterprises are classified into class 1, class 2, class 3, class 4 and provisional qualification. The class 1 qualification shall be subject to preliminary assessment by the real estate development authority under the people’s government of the province and final approval by the construction authority under the State Council; classes 2, 3 and 4 and the provisional qualification shall be assessed by the real estate development authority under the people’s government of the province. For classes 3 and 4 and the provisional qualification, the real estate development authority under the people’s government of the province can entrust the real estate development authority under the people’s government of the cities with district divisions and autonomous prefecture to assess the qualifications and report to the relevant people’s governments of the province. The qualification certificate is valid for three years. The provisional qualification certificate is valid for one year. The authority can extend the validity period of provisional qualification certificate for not more than two years after considering the actual business situation of the enterprise.

***(b) The business scope of a real estate developer***

Under the “Provisions on Administration of Qualifications”, a developer of any qualification classification may engage in the development and sale of real estate within its approved scope of business and is not allowed to engage in business which exceeded the approved scope of its qualification classification. A class 1 real estate developer may undertake a real estate development project anywhere in the country without any limit on the



scale of real estate project. A real estate developer of class 2 or lower may undertake a project with a gross floor area of less than 250,000 sq.m. and the specific scope of business shall be determined by the construction authority under the people's government of the relevant province, autonomous region or municipality.

The "Regulations on Real Estate Developments of Guangdong Province" have not set out any express provision concerning the scope of a real estate developer.

Under the "Regulations on Real Estate Developments of Hunan Province", the gross floor area of a project to be developed by a class 1 real estate developer is not restricted. The gross floor area of project to be developed by a class 2 real estate developer should be less than 250,000 sq.m. A class 3 real estate developer may undertake a project with a gross floor area of less than 150,000 sq.m. The gross floor area of project to be developed by a real estate developer of class 4 and with provisional qualification should be less than 50,000 sq.m.

***(c) The annual inspection of a real estate developer's qualification***

Pursuant to the "Provisions on Administration of Qualifications", the qualification of a real estate developer should be subject to annual inspection. The construction authority under the State Council or the entrusted institution is responsible for carrying out the annual inspection of a class 1 real estate developer's qualification. Procedures for annual inspection of developers of a class 2 or lower qualification shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

Under the "Regulations on Real Estate Developments of Guangdong Province", the qualification of a real estate developer should be annually inspected.

The "Regulations on Real Estate Developments of Hunan Province" have not set out any express provision concerning annual inspection.

**D. Development of a Real Estate Project**

***(a) Land for property development***

Under the "Interim Regulations of the People's Republic of China on Assignment and Transfer of the Right to Use State-owned Land in Urban Areas" (the "Interim Regulations on Assignment and Transfer") promulgated and enforced 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 a premium to the State as consideration for the assignment of the land use rights within certain terms, and a land user may transfer, lease, mortgage or otherwise commercially exploit the land use right within his terms of use. Under the Interim Regulations on Assignment and Transfer and the Urban Real Estate law, the land administration authority under the local government of the relevant city or county shall enter into an assignment contract with the land user for an assignment of land use right. The land user shall pay the assignment price as stipulated in the assignment contract. After paying the assignment price in full, the land user shall register with the land administration authority and obtain a land use right certificate. The Land Use Right Certificate is an evidence of the acquisition of land use rights. The Development Regulations provide that the land use rights for a site intended for real estate development shall be obtained by way of an assignment except for those land use rights which may be obtained by way of allocation pursuant to the PRC laws or the stipulations of the State Council.

Under the "Regulations on the Assignment of State-Owned Land Use Right through Competitive Bidding, Auction and Listing-for-Sale" enacted by the Ministry of Land and Resources on May 9, 2002 and enforced on July 1, 2002, land for commercial use, tourism, entertainment and commodity housing development shall be assigned by way of competitive bidding, a public auction or a listing-for-sale. The procedures are as follows:

- (a) The land authority under the people's government of the city and county (the "assignor") shall make an announcement at least 20 days prior to the date of the proposed competitive bidding, public auction

or listing-for-sale. The announcement should include basic particulars such as land parcel, the qualification requirement of the bidder and auction applicants, methods and criteria on confirming the winning tender or winning bidder, and other conditions such as the deposit for the bid.

(b) The assignor shall conduct a qualification verification of the bidding applicants and auction applicants, inform the applicants who satisfy the requirements set out in the announcement and invite them to attend the competitive bidding, public auction or listing-for-sale.

(c) After determining the winning tender or the winning bidder by the competitive bidding, public auction or listing-for-sale, the assignor and the winning tender or winning bidder shall then enter into a confirmation. The assignor should return the bidding or tender deposit to other bidding or auction applicants.

(d) The assignor and the winning tender or winning bidder shall enter into a contract for state-owned land use right assignment according to the time and venue set out in the confirmation. The deposit of the bid paid by the winning tender or winning bidder will be used to set off part of the assignment price of the state-owned land use rights.

(e) The winning tender or winning bidder should apply for the land registration after paying off the assignment price in accordance with the state-owned land use right assignment contract. The people's government above the city and county level should issue the "Land Use Permit for State-Owned Land."

According to the "Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction" enacted by the Ministry of Land and Resources on September 4, 2003 (the "Notice"), commencing from the day of distribution of the Notice, land use for luxurious commodity houses shall be stringently controlled, and applications for land use for building villas shall be stopped. On May 30, 2006, the Ministry of Land and Resources issued the "Urgent Notice of Further Strengthening the Administration of the Land." It is expressly prescribed in this Notice that land for property development must be assigned by way of competitive bidding, public auction or listing-for-sale; the rules for stopping the development project for villas should be strictly enforced; and all supply of land for such purpose and the handling of related land use procedure will be ceased from the day of the Notice's issuance.

Under the "Urgent Notice of Further Strengthening the Administration of the Land", the land authority should rigidly execute the "Model Text of the State-owned Land Use Right Assignment Contract" and "Model Text of the State-owned Land Use Right Assignment Supplementary Agreement (for Trial Implementation)" jointly enacted by the Ministry of Land Resources and SAIC. The document of the land assignment should ascertain the requirement of planning, construction and land use such as the restriction of the dwelling size, plot ratio and the time limit of starting and completion. All these should be agreed in the Land Use Right Assignment Contract.

Under the "Regulations on the Assignment of State-Owned Land for Construction Use Right through Competitive Bidding, Auction and Listing-for-Sale" enacted by the Ministry of Land and Resource on September 28, 2007, and enforced on November 1, 2007, land of industrial use (including the land for warehouses but not include the land for mining), commercial use, tourism, entertainment and commodity housing development or more than 2 competing users on one piece of land shall be assigned by way of competitive bidding, a public auction or a listing-for-sale. The assignee should obtain the Land Use Right Certificate after paying off the total premium. The assignee neither obtains the Land Use Right Certificate without paying off the total premium nor obtains the Land Use Right Certificate separately by proportion of the payment of the premium.

***(b) Development of a real estate project***

*i. Commencement of a real estate project and the idle land*

Under the Urban Real Estate Law, those who have obtained the land use right through an assignment must develop the land in accordance with the terms of use and within the period of commencement prescribed in the

contract for the land use rights assignment. According to the “Measures on Disposing Idle Land” enacted and enforced by the Ministry of Land and Resources on April 28, 1999, the land can be defined as idle land under any of the following circumstances:

- development and construction of the land is not commenced within the prescribed time limit after obtaining the land use right without consent from the people’s government who approved the use of the land;
- where the “Contract on Paid Use of the Right to Use State-Owned Land” or the “Approval Letter on Land Used for Construction” has not prescribed the date of commencing the development and construction, the development and construction of the land has not commenced by one year from the date when the “Contract on Paid Use of the Right to Use State-Owned Land” became effective or when the administrative department of land issued the “Approval Letter on Land Used for Construction”;
- The development and construction of the land has been commenced but the area of the development and construction that has been commenced 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 have been continuously suspended for one year or more without an approval; or
- other circumstances prescribed by the laws and the administrative regulations.

The municipality or county-level municipality administrative department shall, after a piece of land which has been ascertained as idle land, notify the concerned land user and draft a proposal on methods of disposal of the idle land including but not limited to extending the time period for development and construction (provided that the extension shall be no longer than one year), changing the use of the land, arranging for temporary use, ascertaining a new land user by competitive bidding or public auction. The administrative department of land under the people’s government of city or county level shall, after the proposal on disposal has been approved by the original people’s government who approved the use of the land, arrange for implementation of the proposal. For land which is obtained by assignment and is within the scope of city planning, if the work has not been commenced after one year from the prescribed date of commencement, a surcharge on idle land equivalent to less than 20% of the assignment price may be levied; if the work has not been commenced after two years from the prescribed date of commencement, the land can be confiscated without any compensation. However, the preceding stipulations shall not apply if the delay is caused by force majeure, acts of government or acts of other relevant departments under the government, or by the indispensable preliminary work.

#### *ii. Planning of a real estate project*

According to the “City Planning Law of the People’s Republic of China” enacted by the Standing Committee of the National People’s Congress on December 26, 1989 and enforced on April 1, 1990, the “Measures for Control and Administration of Assignment and Transfer of Right to Use Urban State-owned Land” enacted by the Ministry of Construction on December 4, 1992 and enforced on January 1, 1993 and the “Notice of the Ministry of Construction on Strengthening the Planning Administration of Assignment and Transferring Right to Use State-owned Land” enacted and enforced by the Ministry of Construction on December 26, 2002, after signing an assignment contract, a real estate developer shall apply for a Opinion on Construction Project’s Site Selection and a Permit for Construction Site Planning from the city and county planning authority with the assignment contract. After obtaining a Permit for Construction Site Planning, a real estate developer shall organize the necessary planning and the design work with regard to planning and design requirements, and apply for a Permit for Construction Work Planning from city planning authority with the relevant approval documents.

#### *iii. Construction of a real estate project*

After obtaining the Permit for Construction Work Planning, a real estate developer shall apply for a Construction Permit from the construction authority above the county level according to the “Measures for the Administration of Construction Permits for Construction Projects” enacted by the Ministry of Construction on October 15, 1999 and revised and enforced on July 4, 2001.

*iv. Completion of a real estate project*

According to the Development Regulation, the “Regulation on the Quality Management of Construction Projects” enacted and enforced by the State Council on January 30, 2000, the “Interim Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure” enacted by the Ministry of Construction in April 2000 and the “Interim Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure” enacted and enforced by the Ministry of Construction on June 30, 2000, after completion of work for a project, a real estate developer shall apply for the acceptance examination to the real estate development authority under the people’s government on or above the county level and report details of the acceptance examination, upon which the “Record of acceptance examination upon project completion” is issued. For a housing estate or other building complex project, an acceptance examination shall be conducted upon completion of the whole project and where such a project is developed in phases, separate acceptance examination may be carried out for each completed phase.

**E. Real Estate Transactions**

***(a) Transfer of real estate***

According to the “Urban Real Estate Law” and the “Provisions on Administration of Transfer of Urban Real Estate” enacted by the Ministry of Construction on August 7, 1995 and revised on August 15, 2001, a real estate owner may sell, give or otherwise legally transfer a real estate to another person or legal entity. When transferring a building, the ownership of the building and the land use rights attached to the site on which the building is situated are transferred simultaneously. The parties to a transfer shall enter into a real estate transfer contract in writing and register the transfer with the real estate administration authority having jurisdiction over the location of the real estate 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 assignment contract and a land use right certificate has been obtained; and (b) if development is to be carried out according to the assignment contract and is 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 real estate shall be the remaining portion of the original term provided by the land use right assignment contract after deducting the time that has been used by the former land users. In the event that the transferee intends to change the use of the land provided in the original assignment contract, consent shall first be obtained from the original assignor and the planning administration authority under the local government of the relevant city or county and an agreement to amend the land use right assignment contract or a new land use right assignment contract shall be signed in order to, inter alia, adjust the land use right 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 under the regulations of the State Council. If the people’s government vested with the necessary approval power approves such a transfer, 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.

***(b) Sale of commodity properties***

Under the “Regulatory Measures on the Sale of Commodity Properties” enacted by the Ministry of Construction on April 4, 2001 and enforced on June 1, 2001, sale of commodity properties can include both pre-completion and post-completion sales.

*i. Permit of Pre-Completion Sale of Commodity Properties*

According to the Development Regulations and the “Measures for Administration of Pre-completion Sale of Commodity Properties” (the “Pre-completion Sale Measures”) enacted by the Ministry of Construction on November 15, 1994 and revised on August 15, 2001 and July 20, 2004 respectively, the pre-completion sale of commodity properties shall be subject to a permit system, under which a real estate developer intending to sell a commodity building before its completion shall make the necessary pre-completion sale registration with the real estate development authority of the relevant city or county to obtain a permit of pre-completion sale of commodity properties. A commodity building may only be sold before completion provided that: (a) the assignment price has been paid in full for the assignment of the concerned land use rights and a land use rights certificate has been issued; (b) a Permit for Construction Work Planning and a Permit for Construction of Work have been obtained; (c) the funds invested in the development of the commodity properties put to pre-completion sale represent 25% or more of the total investment in the project and the progress of work and the completion and delivery dates have been ascertained; and (d) the pre-completion sale has been registered and a Permit for Pre-completion Sale of Commodity Properties has been obtained.

In addition, according to the “Regulations on Administration of Pre-completion Sale of Commodity Properties of Guangdong Province” enacted by the Standing Committee of Guangdong Provincial People’s Congress on August 22, 1998 and revised on October 14, 2000, and the “Notice on Adjusting Conditions of Image and Progress for Commodity Building Pre-sale Project in Guangdong Province” issued by the Guangdong Provincial Construction Bureau in January 2001, the following conditions shall be fulfilled for the pre-completion sale of commodity properties in Guangdong: (a) the real estate developer has obtained a real property development qualification certificate and a business license; (b) the construction quality and safety monitoring procedures have been performed; (c) the structural construction and the topping-out must have been completed in respect of properties of not more than seven stories (including seven stories), and at least two-third of the structural construction must have been completed in respect of properties of more than seven stories; (d) a special property pre-completion sale account with a commercial bank in the place where the project is located has been opened; and (e) the properties, pre-completion sale project and its land use rights are free from any third party rights.

Pursuant to the “Regulations on Real Estate Development of Hunan Province” enacted by the People’s Government of Hunan on April 12, 2006 and enforced on June 1, 2006, the following conditions shall be fulfilled for pre-completion sale of commodity properties in Hunan province: (a) the “Land Use Permit for State-Owned Land”, the “Construction Work Planning Permit” and the “Permit for Construction of Work” have been obtained; (b) the progress of high-rise construction projects has reached or has exceeded one-third of the design’s progress, the progress of other construction projects has reached or has exceeded one-half of the design’s progress; and (c) the construction schedule and the date for completion and delivery have been determined. Under the “Regulations on Administration of Dealings in Urban Real Estate of Changsha City” enacted by the people’s government of Changsha city on January 19, 2004 and enforced on March 1, 2004, to acquire a Permit for Pre-completion Sale of Commodity Properties, a Changsha City real estate developer must fulfill the following requirements: (a) the land use right certificate has been obtained; (b) the “Construction Work Planning Permit” and the “Permit for Construction of Work” of the commodity properties have been obtained; (c) 50% or more of the civil engineering construction work has been finished or the roofs of the multi-story buildings have been completed or the 10th floor of the high-rise building has been completed, and the construction schedule and the date for completion and delivery have been determined (including the environmental and supporting facilities construction); (d) the plan on advance sale of commodity properties has been set down; (e) a bank account for monitoring the pre-completion sale proceeds has been opened in Changsha and the agreement for monitoring the pre-completion sale proceeds with the bank has been signed; and (f) the plan of property management has been made.

*ii. Management of pre-completion sale proceeds of commodity properties*

According to the Pre-completion Sale Measures, the proceeds obtained by a real estate developer from the advance sale of commercial houses must be used for the construction of the relevant projects. The specific measures for the supervision on proceeds from the advance sale of commodity properties shall be formulated by the real estate administrative departments.

Under the “Regulations on Administration of Pre-completion Sale of Commodity Properties of Guangdong Province” enacted by the Standing Committee of Guangdong Provincial People’s Congress on July 29, 1998 and revised on August 22, 2000, prior to the application for a Permit of Pre-completion Sale of Commodity Properties, a real estate developer should open a dedicated property pre-completion sale account with a commercial bank in the place where the project is located. Where the developer has several projects with advance sales of commodity properties, he shall set up separate dedicated accounts for pre-sale of commodity properties. Before the project is completed, the funds in the dedicated account must only be used to buy the necessary construction materials and facilities, and to pay for progress payments and statutory tax payments in respect of the project. The funds in the dedicated account cannot be used for other purposes. The buyer who wants to buy a pre-sale commodity building shall directly deposit the payment amount of commodity building in the dedicated account of pre-sale payment pursuant to the time of payment agreed upon in the contract. The real estate transaction registration agencies of the cities and the counties where the commodity building sold in advance are located shall be responsible for supervising and administering the use of the advance payment of commodity properties. When the developer wants to use the pre-sale proceeds of commodity properties, the bank shall allocate the funds according to the amount approved by the real estate transaction registration agency. Where the developer, in violation of the aforesaid provisions, uses the pre-sale proceeds of commodity building or directly receives and keeps the pre-sale payment amount, the administrative departments in charge shall order him to make corrections, shall demote or write off its qualification for real estate development, and may impose a fine equal to an amount of between 10% to 20% of the illegally used funds.

*iii. Conditions of the sale of post-completion commodity properties*

Under the “Measures for Administration of Sale of Commodity Properties”, commodity properties may be put to post-completion sale only when the following preconditions have been satisfied: (a) the real estate development enterprise offering to sell the post-completion properties shall have a enterprise legal person business license and a qualification certificate of a real estate developer; (b) the enterprise has obtained a land use right certificate or other approval documents of land use; (c) the enterprise has the permit for construction project planning and the permit for construction; (d) the commodity properties have been completed and been inspected and accepted as qualified; (e) the relocation of the original residents has been well settled; (f) the supplementary essential facilities for supplying water, electricity, heating, gas, communication, etc. have been made ready for use, and other supplementary essential facilities and public facilities have been made ready for use, or the schedule for construction and delivery date thereof have been specified; and (g) the property management plan has been completed.

Before the post-completion sale of a commodity building, a real estate developer shall submit the Real Estate Development Project Manual and other documents showing that the preconditions for post-completion sale have been fulfilled to the real estate development authority for making a record.

*iv. Regulations on sale of commodity properties*

According to the Development Regulations and the Pre-completion Sale Measures, for the pre-completion sale of a commodity property, the developer shall sign a contract on the pre-sale of the commodity property with the purchaser. The developer shall, within 30 days upon signing the contract, apply for registration and record of the contract for pre-completion sale commodity property to the relevant administrative departments governing the real estate and land administration department of the city or country governments. Real estate administrative

department shall take the initiative to apply network information technology to gradually implement the web-based registration of pre-sale contracts.

Pursuant to the “Circular of the General Office of the State Council on Forwarding the Opinion of the Ministry of Construction and Other Department on Doing a Good Job of Stabilizing House Prices” on May 9, 2005, there are several regulations concerning commodity properties sale:

- The buyer of a commodity building is prohibited from conducting any transfer of the pre-sale of the commodity building that he has bought but is still under construction. Before completion and delivery of an advance sale commodity building to the advance buyer, and before the advance buyer obtains the individual property ownership certificate, the administrative department of real estate shall not handle any transfer of the commodity building. If there is discrepancy in the name of the applicant for real estate ownership and the name of the advance buyer in the advance sales contract, the real estate ownership registration administration shall not records the application of real estate ownership.
- A real name system for house purchase should be applied; and an immediate archival filing network system should be carried out for the pre-sale contracts of commodity properties.

On July 6, 2006, the Ministry of Construction, NDRC, and the SAIC jointly enacted a Notice on Reorganizing and Regulating Order in the Real Estate Transactions, the details of which are as follows:

- The developer should start to sell the commodity properties within 10 days after receiving a “Permit for Pre-completion Sale of Commodity Properties.” Without this permit, the pre-completion sale of commodity properties, as well as subscription (including reservation, registration and number-selecting) and acceptance of the any kind of pre-sale payments, is forbidden.
- The real estate administration authority should establish an immediate network system for pre-sale contracts of commodity properties and a system for the publication of real estate transaction information. The basic information of the commodity building, the schedule of the sale and the ownership status should be duly, truly and fully published in the network system and on the locale of sale. The advance buyer of a commodity building is prohibited from conducting any transfer of the advance sale of the commodity building that he has bought but is still under construction.
- Without the “Permit for Pre-completion Sale of Commodity Properties”, no advertisement of the pre-completion sale of commodity properties can be published.
- Real estate development enterprises with a record of serious irregularity or enterprises which do not satisfy the requirements of pre-completion sale of commodity properties are not allowed to take part in sale activities.
- The real estate administration authority should strictly carry out the regulations for the pre-completion sale contract registration and records and apply the real name system for property purchase.

### ***(c) Mortgages of Real Estate***

Under the “Urban Real Estate Law” and the “The Security Law of the People’s Republic of China” enacted by the Standing Committee of the National People’s Congress on June 30, 1995 and enforced on October 1, 1995, and the “Measures on the Administration of Mortgage of Buildings in Urban Areas” enacted by the Ministry of Construction in May 1997 and revised on August 15, 2001, mortgage refers to the act of a debtor, or a third party, who, without transferring the occupancy of the properties, charge those properties as security for the creditor’s rights. When the debtor fails to pay his debt, the creditor has a right to obtain compensation, in accordance with the stipulations of this law, by converting the properties into money or seek preferential payments from the proceeds from the auction or sale of the concerned properties. The creditor’s rights that the mortgagor mortgaged shall not exceed the value of the properties mortgaged. After being mortgaged, the balance of value of the properties that exceeded the creditor’s rights can be mortgaged for a second time, but the sum of

the mortgage shall not exceed the value of the balance. When a mortgage is created on the ownership of a building on state-owned land legally obtained, a mortgage shall be simultaneously created on the land use right of the land on which the building is erected. When the land use rights of State-owned lands acquired through means of assignment is mortgaged, the buildings on the land shall also be mortgaged at the same time. The land use rights of town and village enterprises cannot be mortgaged individually. When the buildings of the town and village enterprises are mortgaged, the land use rights occupied by the buildings shall also be mortgaged at the same time. The mortgager and the mortgagee shall sign a mortgage contract in writing. Within 30 days after a real estate mortgage contract has been signed, the parties to the mortgage shall register the mortgage with the real estate administration authority at the location where the real estate is situated. A real estate mortgage contract shall become effective on the date of registration of the mortgage. If a mortgage is created on the real estate in respect of which a real estate ownership certificate has been obtained legally, the registration authority shall make an entry under the “third party rights” item on the original real estate ownership certificate and then issue a Certificate of Third Party Rights to Real Estate to the mortgagee. If a mortgage is created on the commodity building put to pre-completion 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 of the real property after the issuance of the certificates evidencing the ownership of the real estate.

***(d) Lease of buildings***

Under the “Urban Real Estate Law” and the “Measures for Administration of Leases of Buildings in Urban Areas” enacted by the Ministry of Construction on May 9, 1995 and enforced on June 1, 1995, the parties to a lease of a building shall enter into a lease contract in writing. A system has been adopted for registering leases of buildings. When a lease contract is signed, amended or terminated, the parties shall register the details with the real estate administration authority under the local government of the city or county in which the building is situated.

**F. Real Estate Financing**

According to the “Notice of the People’s Bank of China on Regulating Home Financing Business” enacted by the PBOC on June 19, 2001, all banks must comply with the following requirements before granting residential development loans, individual home mortgage loans and individual commercial flat loans:

(a) Housing development loans from banks shall only be granted to real estate development enterprises with approved development qualifications and high credit ratings. Such loans shall be offered to residential projects with good market potential. The borrowing enterprise must have capital of at least 30% of the total investment required of the project. The project must have been issued with a land use rights certificates, construction land planning permit, construction work planning permit and permit of construction work;

(b) In respect of the grant of individual home mortgage loans, the ratio between the loan amount and actual value of the security (the “Mortgage Ratio”) shall never exceed 80%. Where an individual applies for a home purchase loan to buy a pre-completion house, the said property must have achieved the stage of “topping-out of the main structure completed” for multi-story buildings or “two-thirds of the total investment completed” for high-rise buildings; and

(c) In respect of the grant of individual commercial flat loans, the Mortgage Ratio under the application for commercial flat loans shall not exceed 60% with a maximum loan period of 10 years and the subject commercial properties must have already been completed.

The PBOC issued the “Circular on Further Strengthening the Management of Loans for Property Business” on June 5, 2003 to specify the requirements for banks to provide loans for the purposes of real estate development and individual home mortgage as follows:

(a) The property loan by commercial banks to real estate development enterprises shall be granted only under the title of real estate development loan and it is strictly forbidden to extend such loans as current



capital loan for real estate development project or other loan item. No lending of any type shall be granted to enterprises which have not obtained the land use right certificates, construction land permit, construction planning permit and construction work permit;

(b) Commercial banks shall not grant loans to property developers to pay off land premium; and

(c) Commercial banks may only provide mortgage loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his first residential unit, the down payment remains at 20%. In respect of his loan application for additional purchase of residential unit(s), the percentage of the first installment shall be increased.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks issued by China Banking Regulatory Commission on September 2, 2004, any real estate developer applying for real estate development loans shall have at least 35% of capital funds required for the development.

According to the “Notice of the People’s Bank of China on the Adjustment of Commercial Bank Housing Loan Policies and the Interest Rate of Excess Reserve Deposit”, enacted by PBOC on March 16, 2005, starting from March 17, 2005, the down payment for individual homes increased from 20% to 30% in cities and areas where property prices grow too quickly. The commercial banks can independently determine scope of such property price rise according to specific situations in different cities or areas.

On May 24, 2006, the State Council passed the “Opinion of the Ministry of Construction and Other Departments on Adjusting the Housing Supply Control Structure and Stabilizing the Property Prices.” The regulations provide the following:

(a) Tightening the control of advancing loan facilities. The commercial banks are not allowed to advance their loan facilities to real estate developers who do not have the required 35% or more of the total capital for the construction projects. The commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the real estate developers who have a large number of idle lands and unsold commodity properties. Banks shall not accept mortgages of commodity properties remaining unsold for three years or longer;

(b) From June 1, 2006 and onward, purchasers need to pay a minimum of 30% of the purchase price as down payment, except for apartments with a floor area of 90 square meters or less for residential purposes, for which the existing requirement of 20% of the purchase price as down payment remains unchanged.

According to the “Circular on Standardizing the Admittance and Administration of Foreign Capital in Real Estate Market” enforced on July 11, 2006, foreign-invested real estate development enterprises which have not paid up their registered capital fully, or failed to obtain a land use right certificate, or with under 35% of the capital for the project, will not be allowed to obtain a loan in or outside China, and foreign exchange administration departments shall not approve any settlement of foreign loans by such enterprises.

On July 10, 2007, SAFE issued a circular indicating that it would not process for foreign investment enterprises in the real estate sector any foreign debt registration or conversion of foreign debt that was approved by the local MOFCOM and filed with MOFCOM after June 1, 2007. See “—B. Foreign-investment Real Estate Development Enterprises.”

On September 27, 2007, the PBOC and the CBRC issued the Circular on Strengthening the Lending Practice for Commodity Properties, which further tightened mortgage lending, including:

- increasing the down payment requirement for purchases of residential properties with GFA of 90 sq.m. or above from 30% to 40% of their purchase prices and requiring the mortgage rates to be at least 1.1 times corresponding PBOC benchmark lending rates, if the purchaser has obtained his or her first home through a mortgage loan; and

- increasing down payment requirement for commercial properties such as offices and shopping malls from 40% to 50% of their purchase prices.

## **G. Insurance of A Real Estate Project**

There are no mandatory provisions in the PRC laws, regulations and government rules which require a real estate developer to take out insurance policies for its real estate projects.

In light of the “Construction Law of the People’s Republic of China” enacted by the Standing Committee of the National People’s Congress on November 1, 1997 and enforced on March 1, 1998, construction enterprises must take out accident and casualty insurance for workers engaged in dangerous operations and pay insurance premium. In the “Opinions of the Ministry of Construction on Strengthening the Insurance of Accidental Injury in the Construction Work” by the Ministry of Construction on May 23, 2003, the Ministry of Construction further emphasizes the importance of the insurance to cover accidental injury in the construction work and put forward detailed guidance. The “Guidance on the Insurance of Accidental Injury in the Construction Work of Guangdong Province” enacted by construction department of Guangdong Province on September 8, 2004 prescribes the scope, object, term, coverage, amount and premium of insurance for accidental injury. The Guidance emphasizes that the persons who have been already insured for work-related injury insurances still need accidental injury insurance when he or she takes part in the on-site construction work. According to the common practice of the property industry in Guangdong, except for the accidental injury insurance, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies shall pay for the insurance premium at their own costs and take out various types of insurance to cover their liabilities, such as property risks, third party’s liability risk, performance guarantee in the course of construction and all-risks associated with the construction and installation work throughout the construction period. The insurance cover for all the aforementioned risks shall cease immediately after the completion and acceptance upon inspection of construction.

## **H. Major Taxes Applicable to Real Estate Developers**

### ***(a) Income tax***

According to the “Income Tax Law of The People’s Republic of China for Enterprises with Foreign Investment and Foreign Enterprises” enacted by National People’s Congress on April 9, 1991 and enforced on July 1, 1991 and its detailed rules enacted by the State Council on June 30, 1991, the rate of enterprise income tax for foreign investment enterprises and enterprise income tax for entities and premises engaged in production and operation by foreign enterprises in China shall be 30%, and the rate of local income tax shall be 3%.

Pursuant to the “Provisional Regulations of the People’s Republic of China on Enterprise Income Tax” issued by the State Council on December 13, 1993 and enforced on January 1, 1994 and its Implementation Rules enacted by the Ministry of Finance on February 4, 1994, the income tax rate applicable to Chinese enterprises other than foreign investment enterprises and foreign enterprises is 33%.

According to the PRC Enterprise Tax Law enacted by the National People’s Congress on March 16, 2007 and enforced from January 1, 2008 onwards, a uniform income tax rate of 25% will be applied towards foreign investment enterprise and foreign enterprises which have set up production and operation facilities in the PRC as well as PRC enterprises.

Furthermore, unlike the Income Tax Law of the People’s Republic of China for Enterprise with Foreign Investment and Foreign Enterprise currently in effect, which specifically exempts withholding tax on any dividends payable to non-PRC investors, the PRC Enterprise Tax Law provides that an income tax rate of 20% will normally be applicable to dividends payable to non-PRC enterprise investors which are derived from sources within the PRC, unless there exists a tax treaty between the PRC and the relevant jurisdictions in which such

non-PRC enterprise shareholders reside whereupon the relevant tax may be reduced or exempted. Although the PRC Enterprise Tax Law contemplates the possibility of exemptions or reductions from withholding taxes on any dividends payable to non-PRC enterprise investors from foreign-invested enterprises, the PRC tax authorities have not announced any related implementation rules.

***(b) Business Tax***

Pursuant to the “Interim Regulations of the People’s Republic of China on Business Tax” enacted by the State Council on December 13, 1993 and enforced on January 1, 1994 and its “Detailed Implementation Rules on the Provisional Regulations of The People’s Republic of China on Business Tax” issued by the Ministry of Finance on December 25, 1993, the tax rate on transfer of immovable properties, their superstructures and attachments is 5%.

***(c) Land Appreciation Tax***

According to the requirements of the Provisional Regulations of The People’s Republic of China on Land Appreciation Tax (the “Land Appreciation Provisional Regulations”) which was enacted on December 13, 1993 and become effective on January 1, 1994, and the Detailed Implementation Rules on the Provisional Regulations of The People’s Republic of China on Land Appreciation Tax (the “Land Appreciation Detailed Implementation Rules”) which was enacted and enforced on January 27, 1995, any appreciation gained from taxpayer’s transfer of property shall be subject to land appreciation tax. Land appreciation tax is set at four different rates: 30% on appreciation not exceeding 50% of the sum of deductible items; 40% on appreciation exceeding 50% but not exceeding 100% of the sum of deductible items; 50% on appreciation exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% on appreciation exceeding 200% of the sum of deductible items. The deductible items include the following:

- amount paid for obtaining the land use right;
- costs and expenses for development of land;
- costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;
- related tax payable for transfer of property; and
- other deductible items as specified by MOF.

According to the requirements of the Land Appreciation Provisional Regulations, the Land Appreciation Detailed Implementation Rules and the Notice issued by the MOF in respect of the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts signed before January 1, 1994 which was announced by the MOF and State Administration of Taxation on January 27, 1995, LAT shall be exempted under any one of the following circumstances:

- Taxpayers building ordinary standard residential properties for sale (i.e. residential properties built in accordance with the local standard for general civilian residential properties. Deluxe apartments, villas, resorts etc. are not under the category of ordinary standard residential properties), where the appreciation amount does not exceed 20% of the sum of deductible items;
- Real estate taken over and repossessed according to laws due to the construction requirements of the State;
- Due to redeployment of work or improvement of living standard, individuals transfer originally self-used residential property, where they have been living for 5 years or more, and after obtaining tax authorities’ approval;
- For real estates transfer contract which were signed before January 1, 1994, whenever the properties are transferred, the Land Appreciation Tax shall be exempted;

- If the real estates assignments were signed before January 1, 1994 or the project proposal has been approved and that 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. For particular real estates projects approved by the Government for the development of the entire piece of land and long-term development, if the properties are transferred for the first time after the 5- year tax-free period, after auditing being conducted by the local financial and tax authorities, and approved by the MOF and the State Administration of Taxation, the tax-free period would be appropriately prolonged.

On December 24, 1999, the MOF and the State Administration of Taxation issued the “Notice in respect of the extension of the period for the Land Appreciation Tax Exemption Policy” that extended the period for the Land Appreciation Tax exemption policy as mentioned in the last bullet above to the end of 2000.

After the issuance of the “Land Appreciation Provisional Regulations” and the “Land Appreciation Detailed Implementation Rules”, due to the relatively long period required for real estates development and transfer, many districts, while they were implementing the regulations and rules, did not mandatorily require the real estates development enterprises to declare and pay the Land Appreciation Tax. Therefore, in order to assist the local tax authorities in the collection of Land Appreciation Tax, the MOF, State Administration of Taxation, the Ministry of Construction and the Ministry of Land and Resource had separately and jointly issued several notices to restate the following: After the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the real estates are located, and pay the Land Appreciation Tax in accordance with the amount as calculated by the tax authority and within the specified time limit. For those who fail to acquire proof of tax payment or tax exemption from the tax authorities, the real estate administration authority shall not process the relevant title change procedures, and shall not issue the real estate title certificate.

The State Administration of Taxation also issued the “Notice issued by State Administration of Taxation in respect of the Serious Handling of Administration Work in relation to the Collection of Land Appreciation Tax” on July 10, 2002 to request local tax authorities to modify the management system of Land Appreciation Tax collection and operation procedures, to build up a proper tax return system for Land Appreciation Tax, to improve the methods of pre-levying for the pre-sale of real estates. That notice also pointed out that the preferential policy of Land Appreciation Tax exemption for first time transfer of properties under real estate development contracts signed before January 1, 1994 or project proposal that has been approved and for which capital was injected for development is expired, and that such tax shall be levied again.

The State Administration of Taxation issued the “Notice of State Administration of Taxation in respect of the Strengthening of Administration Work in relation to the Collection of Land Appreciation Tax” on August 2, 2004 and the “Notice of State Administration of Taxation in respect of the Further Strengthening of Administration Work in relation to the Collection of Land Appreciation Tax and Land Use Tax in Cities and Towns” on August 5, 2004. The aforesaid notices point out that the administration work in relation to the collection of land appreciation tax should be further strengthened. The preferential policy of Land Appreciation Tax exemption for the first time transfer of properties under real estate development contracts signed before January 1, 1994 is expired and such tax shall be levied again. Where such taxes were still not levied, the situation should be corrected immediately. Also, the notice required that the system of tax declaration and tax sources registration in relation to the land appreciation tax should be further improved and perfected.

On March 2, 2006, the MOF and State Administration of Taxation issued the “Notice of Certain Issues Regarding Land Appreciation Tax.” The notice clarifies the relevant issues regarding land appreciation tax as follows:

*(a) As to the Tax Collection and Exemption in the Sale of Ordinary Standard Residential Properties Built by Taxpayer*

The notice sets out the recognized standards for ordinary standard residential properties. Where any developers build ordinary standard residential properties as well as other commercial properties, the value of land appreciation shall be assessed separately. In respect of ordinary standard residential properties for which application for tax exemption has been filed with the tax authority at the locality of the real estate before the notice is issued and for which land appreciation tax exemption has been granted by the tax authority on the basis of the standards of ordinary residential properties originally set down by the people’s government of the province, autonomous region or municipality directly under the Central Government, no adjustment shall be retroactively made.

*(b) As to the Advance Collection of Land Appreciation Tax as well as the Settlement*

- All regions shall further improve the measures for the advance collection of LAT, and decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the level of value appreciation in the real estate industry and market conditions within the region and on the basis of the specific property categories, namely, ordinary standard residential properties, non-ordinary standard residential properties and commercial properties. 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.
- If any tax pre-payment is not paid within the advance collection period, an overdue fines shall be imposed as of the day following the expiration of the prescribed advance collection period, according to the relevant provisions of the Tax Collection and Administration Law and its detailed rules for implementation.
- As to any real estate project that has been completed and gone through the acceptance as well, where the floor area of the real estate as transferred makes up 85% or more in the saleable floor area, the tax authority may require the relevant taxpayer to conduct the settlement of land appreciation tax on the transferred real estate according to the matching principles regarding the proportion between the income generated from the transfer of real estate and the deductible items. The specific method of settlement shall be prescribed by the local tax authority of a province, autonomous region, municipality directly under the Central Government, or a city under separate state planning.

On December 28, 2006, the State Administration of Taxation issued the “Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises” which came into effect on February 1, 2007. The notice set out further provisions concerning the settlement of land appreciation tax by real estate developers by clarifying details regarding units responsible for the settlement of land appreciation tax, requirements, materials to be submitted, auditing and verification, recognition of revenue of indirect sale and self-use properties, deductible items and the handling of transfer after tax is imposed and settled etc. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

Pursuant to the Notice, a property developer 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 tax 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 (1) the property development project has been completed and fully sold; (2) the property developer transfers the whole incompleting development project; or

(3) the land-use rights with respect to the project is transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if either of the following criteria is met: (1) 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 developer; (2) the project has not been sold out for more than three years after obtaining the sale or pre-sale permit; (3) the developer applies for cancellation of the tax registration without having settled the relevant LAT; or (4) other conditions stipulated by the tax authorities.

The Notice also indicated that if a property developer satisfies any of the following circumstances, the tax authorities shall levy and collect LAT as per the 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 book required by law or administrative regulation; (ii) destroying the account book without authorization or refusing to provide taxation information; (iii) the accounts are in a state of mess or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or 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 local situation.

***(d) Deed tax***

Pursuant to the “Interim Regulations of the People’s Republic of China on Deed Tax” enacted by the State Council on July 7, 1997 and enforced on October 1, 1997, the transferee, whether an entity or individual, of the title to a land site or building in the PRC shall have to pay deed tax. The rate of deed tax is 3%–5%. The governments of provinces, autonomous regions and municipalities directly under the central government may, within the aforesaid range, determine and report their effective tax rates to the MOF and the State Administration of Taxation for the record. Pursuant to the “Implementation Provisions on Deed Tax in Guangdong Province” enacted by the People’s Government of Guangdong on June 10, 1998, and enforced on October 1, 1997, the rate of deed tax within Guangdong is 3%.

***(e) Urban land use tax***

Pursuant to the “Provisional Regulations of the People’s Republic of China Governing Land Use Tax in Cities and Towns” enacted by the State Council on September 27, 1988 and enforced on November 1, 1988, the land use tax in respect of urban land is levied according to the area of the relevant land. The annual tax shall be between RMB0.2 and RMB10 per square meter of urban land collected according to the tax rate determined by local tax authorities. According to the “Notice on Land Use Tax Exemption of Foreign Investment Enterprises and Institutions of Foreign Enterprises in China” enacted by the MOF on November 2, 1988 and the “Approval on Land Use Tax Exemption of Foreign Investment Enterprises” issued by the State Administration of Taxation on March 27, 1997, a land use fee instead of land use tax shall be collected from a foreign investment enterprise. However, the Provisional Regulations of the People’s Republic of China Governing Land Use Tax in Cities and Towns was revised by the State Council on December 31, 2006. As of January 1, 2007, land use tax shall be collected from foreign investment enterprise. The annual tax shall be between RMB0.6 and RMB30.0 per square meter of urban land.

***(f) Buildings tax***

Under the “Interim Regulations of the People’s Republic of China on Buildings Tax” enacted by the State Council on September 15, 1986 and enforced on October 1, 1986, buildings tax shall be 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.

***(g) Stamp duty***

Under the “Interim Regulations of the People’s Republic of China on Stamp Duty” enacted by the State Council on August 6, 1988 and enforced on October 1, 1988, for property rights transfer instruments, including those in respect of property ownership transfer, the rate of stamp duty shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including real estate title certificates and land use rights certificates, stamp duty shall be levied at RMB5 per item.

***(h) Municipal maintenance tax***

Under the “Interim Regulations of the People’s Republic of China on Municipal Maintenance Tax” enacted by the State Council on February 8, 1985, any taxpayer, whether an entity or individual, 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 Enterprises with Foreign Investment and Foreign Enterprises” and the “Approval on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-Invested Freightage Enterprises” issued by State Administration of Taxation on February 25, 1994 and on September 14, 2005 respectively, whether foreign investment enterprises are subject to municipal maintenance tax shall be determined in accordance with notices issued by the State Council; and such tax is not applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

***(i) Education surcharge***

Under the “Interim Provisions on Imposition of Education Surcharge” enacted by the State Council on April 28, 1986 and revised on June 7, 1990 and August 20, 2005, a taxpayer, whether an entity or individual, 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.” Under the “Supplementary Notice Concerning Imposition of Education Surcharge” issued by the State Council on October 12, 1994, the “Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises” and the “Reply on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-Invested Freightage Enterprises” issued by State Administration of Taxation on February 25, 1994 and on September 14, 2005 respectively, whether foreign investment enterprises are subject to the education surcharge shall be determined in accordance with notices issued by the State Council; and such tax is not applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

**I. Measures on Adjusting the Structure of Housing Supply and Stabilizing Housing Price**

The General Office of the State Council enacted the “Circular on Stabilizing Housing Price” on March 26, 2005, requiring measures to be taken to restrain the housing price from increasing too fast and to promote the healthy development of the real estate market.

In April 2005, the Ministry of Construction and certain other Chinese government authorities jointly issued the Notice of Stabilizing Property Prices, followed by a set of new measures. As a result:

- as from June 1, 2005, a business tax was levied on property sales proceeds subject to the length of the period for which the property has been held and type of property concerned;
- transfer of uncompleted properties has been banned;

- a “land idle fee” will be imposed on land the development of which does not commence within one year of the commencement date stipulated in the land grant contract and the land use rights granted will be canceled for land sitting idle for two years or more;
- planning permits in relation to projects which are not in compliance with their respective planning permits will be revoked; and
- land provision for villa construction was banned and land provision for high end residential property construction was restricted.

On May 9, 2005, the General Office of the State Council issued the Opinion of the Ministry of Construction and other Departments on Doing a Good Job of Stabilizing House Prices, the opinion provides that:

***(a) Intensifying the planning and control and improving the supply structure of houses***

Where the housing price is growing excessively and where the supply of ordinary commodity houses in the medium or low price range, and economical houses is insufficient, construction of residential properties should mainly involve projects of ordinary commodity houses in the medium or low price range and economical houses. The construction of low-density, upmarket houses shall be strictly controlled. With respect to construction projects of medium- or low-price ordinary commodity houses, before any grant of land, the municipal planning authority shall, according to the level of control required, set out conditions for planning and design such as height of buildings, plot ratio and green space. The real estate authority shall, in collaboration with other relevant authorities, set forth such controlling requirements as sale price, type and apartment sizes. Such conditions and requirements will be set out as preconditions of land assignment to ensure an effective supply of small or medium-sized houses at moderate and low prices. The local government must intensify the supervision of planning permit for real estate development projects. Housing projects that have not been commenced within two years must be examined again, and those that turn out to be not in compliance with the planning permits will be revoked.

***(b) Intensifying the control over the supply of land and rigorously enforcing the administration of land***

Where the price of land for residential use and residential properties grows too rapidly, the proportion of land for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses in the medium or low price range and economical house should be emphatically increased. Land supply for villa construction shall continue to be suspended, and land supply for high-end housing property construction shall be strictly restricted.

***(c) Adjusting the policies of business tax on residential property house transfer and strictly regulating the collection and administration of tax***

From June 1, 2005, the business tax on transfer of a residential property by an individual within two years of the purchase will be levied on the basis of the full amount of the sale proceeds. Transfer of an ordinary residential property by an individual who sells two years or more after the purchase shall be exempted for business tax. For transfer of a house other than ordinary residential property by an individual two years or more after the purchase, the business tax will be levied on the basis of the balance between the proceeds from selling the property and the purchase price.

***(d) Strictly Rectifying and Regulating the Market Order and Seriously Investigating into and Punishing Any Irregular and Rule-breaking Sales***

The buyer of a pre-completion commodity property is prohibited from conducting any transfer of the pre-sale commodity property that he has bought but is still under construction. A real name system for property



purchase should be applied, and an immediate archival filing network system for advance sales contracts of commodity properties should be carried out.

On May 24, 2006, the State Council forwarded the “Opinion on Adjusting the Housing Supply Structure and Stabilizing Property Prices (關於調整住房供應結構穩定住房價格的意見)” (the “Opinion”) of the Ministry of Construction and other relevant government authorities. The Opinion provides the following:

*(1) Adjusting the Housing Supply Structure*

- Developers must focus on providing small- to medium- sized ordinary commodity properties at low- to mid-level prices to cater to the demands of local residents.
- As of June 1, 2006, newly approved and newly commenced building construction projects must have at least 70% of the total construction work area designated for small apartments with floor areas of 90 sq.m. or below (including economically affordable apartments). If municipalities directly under the Central Government, cities listed on state plans (計劃單列市) and provincial capital cities (省會城市) have special reasons to adjust such prescribed ratio, they must obtain special approval from the Ministry of Construction. Construction projects that have been approved but have not yet obtained a construction permit must follow the prescribed ratio.

*(2) Further adjustments by tax, loan and land policies*

- From June 1, 2006, business tax will be levied on the full amount of the sale proceeds on conveyance of residential properties within a period of five years from the date of purchase. If an individual sells his ordinary standard apartment after five or more years from the date of purchase, the business tax will normally be exempted. If an individual sells his non-ordinary apartment after five or more years from the date of purchase, the business tax will be levied on the balance between the selling price and the purchase price.
- Commercial banks are not allowed to advance loan facilities to real estate developers who do not have the required 35% or more of the total capital for the construction projects. The commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the real estate developers who have a large number of idle lands and unsold commodity apartments. Banks shall not accept mortgages of commodity apartments remaining unsold for three years or more.
- According to regulations issued by the CBRC, purchasers of homes equal to or smaller than 90 sq.m. are required to pay a minimum of 20% of the purchase price as down payment. If the purchased home is larger than 90 sq.m., a minimum of 30% of the purchase price as down payment is required, pursuant to a regulation from June 1, 2006. Furthermore, on September 27, 2007 the PBOC and the CBRC increased the minimum down payment for purchasers of second homes from 30% to 40% of the purchase price regardless of the size of the second home, if the purchaser obtained his or her first home through a mortgage. Moreover, the mortgage loan rates for subsequent mortgages are required to be not less than 1.1 times the corresponding PBOC benchmark lending rates. Monthly mortgage payments are limited to 50% of an individual borrower’s monthly income.
- At least 70% of the total land supply for residential property development must be used for developing small-to-medium-sized low-cost public housing. Based on the restrictions of residential property size ratio and residential property price, land supply will be granted by way of auction to the real estate developer who offers the highest bid. 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 restricted.
- The relevant authorities will levy a higher surcharge against those real estate developers who have not commenced the construction work for longer than one year from the commencement date stipulated in the construction contract and will order them to set a date for commencing the construction work and a date of completion. The relevant authorities will confiscate without compensation the land from those real estate developers who have not commenced the construction work beyond two years from the commencement date stipulated in the construction contract without proper reasons. The relevant

authorities will dispose of the idle land of those real estate developers who have suspended the construction work consecutively for one year without an approval, have invested less than one-fourth of the total proposed investment and have developed less than one-third of the total proposed construction area.

*(3) Reasonably Monitoring the Scope and Progress of Demolition of Urban Housing*

- The management and reasonable control of the scope and progress of the demolition of urban housing should be strengthened to halt the excessive property growth triggered by passive means.

*(4) Further Rectifying and Regulating the Order of Real Estate Properties Market*

- In order to ensure that the prescribed ratio regarding types and sizes is followed, the relevant authorities will need to re-examine the approval of those construction projects which have been granted planning permit but have not been commenced. The relevant authorities will ensure that no planning permit (規劃許可證), construction permit (施工許可證) or permit for pre-sale of commodity properties (商品房預售許可證) is issued to those construction projects which do not satisfy the regulatory requirements, in particular, the prescribed ratio requirement. If the real estate developers, without an approval, alter the architectural design, the construction items, and exceed the prescribed ratio, the relevant authorities have the power to dispose of the land and to confiscate the land in accordance with the law.
- The real estate administration authority and the administration of industry and commerce will investigate illegal dealings such as contract fraud cases in accordance with the law. The illegal conduct of pre-completion sale of commodity apartments without satisfying all the conditions will be enjoined and a proper administrative penalty will be imposed in accordance with the law. For those real estate developers who maliciously manipulate the supply of commodity housing, the relevant authorities will impose a proper administrative penalty including revoking the business licenses of those serious offenders and will pursue personal liability for those concerned.

*(5) Gradually relieving the housing demands for low-income families*

- To expedite the establishment of low-cost public housing supply system in various cities and counties; to monitor and regulate the construction of economically affordable apartments; to aggressively develop the second-hand property market and property rental market.

*(6) Improving information disclosure system and system for collecting real estate statistics*

On July 6, 2006, the Ministry of Construction promulgated a supplemental Opinion on Carrying Out the Residential Property Size Ratio in Newly-Built Residential Buildings (Jianzhufang 2006 No. 165) (關於落實新建住房結構比例) (“the Supplemental Opinion”). The Supplemental Opinion provides the following:

- As of June 1, 2006, of the newly approved and newly commenced construction projects in different cities including town and counties at least 70% of the total construction area must be used for building small apartments with unit floor area of 90 sq.m. or below (including economically affordable apartments). The relevant authorities in different localities must strictly follow the prescribed ratio requirement in their respective locality.
- The relevant authorities must ensure the conditions of newly built commodity apartments including the planning and the design, and must ensure that the property size ratio is adhered to. If a real estate developer has not followed the ratio requirement without providing proper reasons, the town planning authorities will not issue a Planning Permit. If the real estate developer has not followed the requirements of the Planning Permit, the relevant authority reviewing the planning documents will not issue a certification, the construction authority will not issue a Construction Permit, and the real estate authority will not issue a Permit for pre-completion sale of the commodity apartments.

In the case of construction projects that were granted approval before June 1, 2006 but that were not granted a construction work permit by that date, the relevant local governments in different localities should ascertain the details of the projects and ensure that the prescribed residential property size ratio requirement is complied with.

On September 27, 2007, the PBOC and the CBRC further tightened mortgage lending by PRC banks, by increasing the amount of down payment a property purchase must make before seeking mortgage financing. See “—F. Real Estate Financing.”

*(e) Implementing restrictions on the payment terms for land use right certificated.*

On October 10, 2007, the Ministry of Land and Resources issued a regulation, which reiterated that property developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use rights certificate and/or commence development on the land, effective November 1, 2007.

## **II. LEGAL SUPERVISION RELATING TO HOTEL SECTOR IN THE PRC**

### **A. Foreign-invested Hotel Project**

According to the “Foreign Investment Industrial Guidance Catalogue”, construction and operation of high-end hotels fall within the category of “Restricted Foreign Investment Industry.” Construction and operation of common and economic hotels other than high-end hotels fall within the category of “permitted foreign investment industry.” A foreign investment enterprise investing in the hotel business can set up an enterprise in the form of Sino-foreign equity joint venture, Sino-foreign co-operative joint venture or wholly foreign-owned enterprise according to the “Foreign Investment Industrial Guidance Catalogue” and the requirements of the relevant laws and the administrative regulations on foreign investment enterprises. A foreign investment enterprise in the hotel business should apply for an approval with the relevant department of commerce, and obtain an Approval Certification for a Foreign Investment Enterprise before registering with the administration of industry and commerce.

### **B. Hotel Management**

The procedures involved in hotel construction in China including obtaining approval for land use, project planning and project construction shall also be subject to the aforementioned regulations relating to real estate project development. There is currently no special authority in China responsible for the daily management of hotel business. The supervision of daily management of hotel business belongs to different authorities in accordance with the respective business scopes of different hotels. The supervision mainly includes the following:

*(a) Legal supervision on security and fire control*

Pursuant to the “Measures for the Control of Security in the Hotel Industry” issued by the Ministry of Public Security of the People’s Republic of China and enforced on November 10, 1987, a hotel can operate only after obtaining an approval from the local public security bureau and a business license has been granted. The hotel enterprise should make a filing with the local public security bureau and its branches in the county or city, if hotel enterprise has any change including closing, transferring or merging of business, changing place of business and name, etc. Pursuant to the “Provisions on the Administration of Fire Control Safety of State Organs, Organizations, Enterprises and Institutions” enacted by the Ministry of Public Security on November 14, 2001 and enforced on May 1, 2002, hotels (or motel) are units which require special supervision on fire control and safety. When the hotels are under construction, renovation or re-construction, a fire control examination procedure is required to carry out and when the construction, renovation or re-construction project is completed, the hotels can only open for business after passing a fire control inspection.

*(b) Supervision on public health*

According to relevant regulations and rules in relation to public health, hotels fall in the scope of public health supervision. The operating enterprise should gain the sanitation license. The measures for granting and

managing sanitation license are formulated by public health authority of province, autonomous region, and municipality directly under the central government. The sanitation license is signed by public health administration above county level and the public health and epidemic prevention institutions grants the license. The sanitation license should be reviewed once every two years.

***(c) Supervision on food hygiene***

According to the relevant regulations and rules in relation to food hygiene supervision, hotels operating catering services should obtain food hygiene licenses. The food hygiene licenses are grant by food hygiene administrative bodies above county level. The purchase, reserve and processing of food, tableware, and service should meet relevant requirements and standards of food hygiene.

***(d) Supervision on entertainment***

According to the “Regulation on the Administration of Entertainment Venues” enacted by the State Council on January 29, 2006 and enforced on March 1, 2006, hotels that operate singing, dancing and game places for profits should apply to the local competent departments for culture administration under the people’s government at the county level or above for the entertainment commercial operation approval. The competent departments for entertainment administration shall issue a license for entertainment business operations, which verifies the number of consumers acceptable to the entertainment venue according to the prescriptions set down by the competent department governing entertainment administration under the State Council if it approves the application. According to the regulations concerning broadcast, movie and TV, hotels above three-star or the second rank of the national standards may apply to local broadcast and television administration of the county or above for setting ground equipment receiving satellite signal to receive entertainment programs from abroad. After finishing setting ground equipment and gaining the approval from broadcast and television administration of the province, autonomous region, and municipality directly under the central government and the approval from state security administration, the permit of receiving foreign television program from satellite should be issued.

***(e) Supervision on disposition of sewage and pollutants***

According to Regulations of the Ministry of Construction on the “Conditions for the Fifteen Items of Administrative Licensing that are Included in the Decisions of the State Council” enacted by the Ministry of Construction on October 15, enforced on December 1, 2004, hotels that have been using or planning to use the city sewage system for water drainage should apply to the local city construction authority for city water-draining permit. According to the “Provisional Measures on Management of Water-draining Permit” enacted and enforced by the State Environmental Protection Administration on March 22, 1988, hotels that directly or indirectly discharge pollutants to a body of water should apply to environmental protection administrations of the district or county level for a drainage permit or a temporary drainage permit.

***(f) Supervision on special equipment security***

Elevators (lifts or escalators), boilers and pressure containers and so on are special equipment. According to the Regulations on Security Supervisal of Special Equipment enacted by the State Council on March 11, 2003 and enforced on June 1, 2003, hotels should register with the special equipment security supervision authority of municipality directly under the central government or city which has set up districts, and should apply for inspection regularly with the special equipment examination institution a month before the expiration of security examination according to the requirement of regular examination by technical security standard.

***(g) Supervision on sale of tobacco and alcohol***

According to law and regulations in relation to sale of tobacco, hotels that operate retail of tobacco should apply to the tobacco monopoly administration for a Tobacco Monopoly Retail License. According to the “Measures for the Administration on Foreign Investment in Commercial Fields” enacted by Ministry of Commerce on April 16, 2004 and enforced on June 1, 2004, foreign investment enterprise that operates wholesale and retail is not allowed to operate in tobacco business. According to the “Measures for the Administration of Alcohol Circulation” enacted by Ministry of Commerce on November 7, 2005 and enforced on January 1, 2006, the enterprise that engages in the retail of alcohol should handle the archival filing and registration in the administrative department of commerce at the same level as the administrative department for industry and commerce where the registration is handled. The licensing system shall be continued in those regions where the licensing administration of alcohol circulation has been carried out according to law.

### **III. LEGAL SUPERVISION RELATING TO REAL ESTATE MANAGEMENT SECTOR IN THE PRC**

#### **A. Foreign-invested Real Estate Management Enterprises**

According to the “Foreign Investment Industrial Guidance Catalogue”, real estate management falls within the category of permitted foreign investment industries. According to the “Foreign Investment Industrial Guidance Catalogue” and the relevant requirements set out under the laws and the administrative regulations on foreign investment enterprises, a foreign invested real estate management enterprise can be set up in the form of a Sino-foreign equity joint venture, a Sino-foreign cooperative joint venture or a wholly foreign owned enterprise. Before the administration of Industry and Commerce registers a foreign investment enterprise as a foreign-invested real estate management enterprise, the foreign-invested real estate management enterprise should obtain an approval from the relevant department of commerce and receive a “foreign investment enterprise approval certificate.”

#### **B. Qualifications of a real estate management enterprise**

According to the “Regulation on Real Estate Management” enacted by the State Council on June 8, 2003 and enforced on September 1, 2003, as amended on August 26, 2007 and effective on October 1, 2007, the state implements a qualification scheme system in monitoring the real estate management enterprises. According to the “Measures for Administration of Qualifications of Real Estate Management Enterprises” enacted by the Ministry of Construction on March 17, 2004 and enforced on May 1, 2004, a newly established real estate management enterprise shall, within 30 days from the date of receiving its business license, apply to the relevant local bureau in charge of the real estate management under the local government or to the municipalities directly under the Central Government for a grading assessment. The departments of qualification examination and approval will check and issue a “real estate management qualification certificate” corresponding to their grading assessment results.

According to the “Measures for the Administration on Qualifications of Real Estate Management Enterprises” real estate management enterprise shall be classified as either class one, class two or class three. The competent construction department of the State Council shall be responsible for the issuance and administration of the qualification certificate for class one real estate 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 for class two real estate management enterprises, and the competent realty departments of the people’s governments of municipalities directly under the Central Government shall be responsible for issuance and administration of the qualification certificate for classes two and three real estate 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 class three real estate management enterprises.

The real estate management enterprises with class one qualification may undertake various real estate management projects. The real estate management enterprises with class two qualification may undertake the real estate management business of residential management projects of less than 300,000 sq.m. and non-residential management projects of less than 80,000 sq.m. The real estate management enterprises with class three qualification may undertake the real estate management business of residence projects of less than 200,000 sq.m. and non-residence projects under 50,000 sq.m.

An annual inspection system shall be implemented on the qualifications of real estate management enterprises. The annual inspection on the real estate management enterprises of varied classes of qualifications shall be presided over by the corresponding departments of qualification examination and approval.

### **C. Employment of A Real Estate Management Enterprise**

According to the “Regulation on Real Estate Management,” owners may engage or dismiss a property management company with the consent of more than half of the owners who in the aggregate hold more than 50% of the total non-communal area of the building. If, before the formal employment of a real estate management by the owners or the general meeting, the construction unit is to employ a real estate management enterprise, it shall enter into a preparation stage real estate services contract in writing with the real estate management enterprise.

## **IV. LEGAL SUPERVISION RELATING TO CONSTRUCTION SECTOR IN THE PRC**

### **A. Foreign-Invested Construction Enterprise**

According to the “Foreign Investment Industrial Guidance Catalogue”, construction business falls within the category of permitted foreign investment industries. According to the “Regulations on the Administration of Foreign-invested Construction Enterprise” jointly enacted by the Ministry of Construction and the Ministry of Foreign Economic Cooperation (now changed to MOFCOM) on September 27, 2002 and enforced on December 1, 2002, a foreign investor that establishes foreign invested construction enterprises in China and carry on construction operations shall have to (a) obtain the approval certification of foreign investment enterprise; (b) register with the SAIC or local administration of industry and commerce; and (c) obtain qualification certificate of construction enterprise from construction administration authorities.

### **B. The Qualification of A Construction Enterprise**

According to “Construction Law of the People’s Republic of China” passed by the Standing Committee of the National People’s Congress on November 1, 1997 and enforced on March 1, 1998 and the “Provisions on the Administration of Qualifications of Enterprises in Construction Industry” enacted by the Ministry of Construction on April 18, 2001 and enforced on July 1, 2001, the enterprises in construction industry shall be classified into different qualification classes pursuant to amount of its registered capital, net asset value, professional personnel, technical equipments and performance records of completed construction works etc. A construction enterprise shall engage in construction activities within its approved scope after obtaining the construction qualification certificate.

According to above-mentioned “Provisions on the Administration of Qualifications of Enterprises in Construction Industry”, the qualifications will be divided into three categories, namely, that for undertaking the whole of a construction project, that for undertaking a specialized contract and that for undertaking a labor service by subcontract. The categories of qualifications for undertaking the whole of a construction project, undertaking a specialized contract and undertaking a labor service by subcontract are divided into several qualification types according to the nature of the project and technical features. Each qualification type are further divided into several classes according to the prescribed conditions.

The department in charge of construction under the State Council shall be responsible for the approval of the qualification of special class or first class enterprises for undertaking the whole of a construction project, and the qualification of the first class enterprises for undertaking the specialized contract. The administrative department in charge of construction of the people's government of the province, autonomous region, or municipality directly under the Central Government at the place where the concerned enterprise is registered, shall be responsible for the approval of the qualification of the second class or below enterprises for undertaking the whole of a construction project or undertaking a specialized contract or the qualification of an enterprise of labor service by subcontract.

The department in charge of construction shall implement the system of annual inspection on qualification for enterprises in construction industry. The administrative department in charge of construction under the State Council shall be responsible for the annual inspection on the qualification of special class or the first class enterprises for undertaking the whole of a construction project, and the qualification of the first class enterprises for undertaking specialized contract. The administrative department in charge of construction of the people's government of the province, autonomous region, or municipality directly under the Central Government at the place where the concerned enterprise is registered, shall be responsible for the annual inspection on the qualification of the second class or below enterprises for undertaking the whole of a construction project or undertaking a specialized contract or the qualification of an enterprise of labor service by subcontract. According to the "Measures of the Ministry of Construction for the Implementation of the Relevant Qualification Administration Provided in the Provisions on the Administration of Foreign Funded Construction Enterprises" enacted by the Ministry of Construction and enforced on April 8, 2003, where a foreign enterprise purchases a domestic-funded construction enterprise, and the enterprise is restructured into a foreign-funded construction enterprise, the qualification of that enterprise shall be reviewed anew according to the standard it actually meets.

According to the "Provisions on the Administration of Qualifications of Enterprises in Construction Industry", an enterprise which undertakes a project without obtaining the qualification certificate for enterprises in construction industry shall be banned, and be imposed a fine of 2% to 4% of the contractual price of the project. If it obtains any illegal proceeds, such proceeds shall be confiscated.

### **C. The Business Scope of Qualifications for a Wholly Foreign Owned Construction Enterprise**

According to the "Rules for the Administration of Foreign-funded Construction Enterprises", a wholly foreign owned construction enterprise is allowed to contract, within its scope of qualifications, the following projects: (a) a project that is to be constructed totally with the investment of a foreign country or the donation of a foreign country or the investment and donation of a foreign country; (b) a project funded by an international financial institution or granted through international bidding according to terms of loan; (c) a joint construction project of which foreign investment holds 50% or more, and a Sino-foreign joint construction enterprise in which foreign investment holds less than 50% but which cannot be independently implemented by any Chinese construction enterprise due to technical difficulties and has been approved by the administrative department of construction of the people's government of the province, autonomous region or municipality directly under the Central Government; and (d) a construction project using Chinese investment but that cannot be independently implemented by any Chinese construction enterprise due to technical difficulties and for which the administrative department of construction of the people's government of the province, autonomous region or municipality directly under the central government has approved its jointly being contracted by Chinese and foreign construction enterprises.

### **V. Regulation on Foreign Exchange Registration of Offshore Investment by PRC Residents**

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or Circular No. 75, issued on October 21, 2005, (i) a PRC resident, including a PRC resident natural person or a PRC company, shall

register with the local branch of SAFE before it establishes or controls an overseas special purpose vehicle, or SPV, for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into a SPV, or engages in overseas financing after contributing assets or equity interests into a SPV, such PRC resident shall register his or her interest in the SPV and the change thereof with the local branch of SAFE; and (iii) when the SPV undergoes a material event outside the PRC, such as change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. Under Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on the PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV.

As a result, under Circular No. 75, if the PRC resident or the SPV described above engages in an overseas offering or otherwise undergoes a material event outside the PRC, such PRC resident and SPV are required to register such change with the local branch of SAFE within 30 days from the occurrence of such offering or event.



## MANAGEMENT

The following table sets forth certain information with respect to our directors and senior management as of June 30, 2007.

<u>Name</u>	<u>Age</u>	<u>Title</u>
Mr. Yeung Kwok Keung . . . . .	52	Chairman and an Executive Director
Mr. Cui Jianbo . . . . .	42	President and an Executive Director
Ms. Yang Huiyan . . . . .	25	Executive Director
Mr. Yang Erzhu . . . . .	56	Executive Director
Mr. Su Rubo . . . . .	52	Executive Director
Mr. Zhang Yaoyuan . . . . .	61	Executive Director
Mr. Ou Xueming . . . . .	58	Executive Director
Mr. Yang Zhicheng . . . . .	33	Executive Director
Mr. Yang Yongchao . . . . .	32	Executive Director
Mr. Lai Ming, Joseph . . . . .	62	Independent Non-Executive Director
Mr. Shek Lai Him, Abraham . . . . .	62	Independent Non-Executive Director
Mr. Tong Wui Tung, Ronald . . . . .	57	Independent Non-Executive Director
Mr. Wong Tak Chuen . . . . .	42	Chief Financial Officer
Mr. Huen Po Wah . . . . .	58	Company Secretary
Mr. Song Jun . . . . .	39	Vice-President
Mr. Xie Shutai . . . . .	42	Vice-President
Mr. Wang Zhidun . . . . .	37	Vice-President
Mr. Hu Ran . . . . .	37	Vice-President

### DIRECTORS

Our Board currently consists of 12 Directors, three of whom are independent non-executive Directors. All the Directors were appointed in December 2006.

#### Executive Directors

**Yeung Kwok Keung (楊國強)**, aged 52, is the chairman and an executive Director of our Company. Mr. Yeung graduated from the School of Economic Management of Jinan University (暨南大學). Mr. Yeung is responsible for the formulation of development strategies, investment planning and overall project planning. From 1992 to 1997, he was the general manager of Shunde Sanhe Property Development Co., Ltd. (順德市三和物業發展有限公司). From 1986 to 1997, Mr. Yeung served as the general manager of Shunde Beijiao Construction Company Limited (順德市北滘建築工程有限公司) and also served as the general manager of the Group from 1997 to 2003. He had been the chairman of the Group from 2003 to 2005 and became chairman of the Company after its formation in 2006. Mr. Yeung has over 30 years of experience in construction and approximately 16 years of experience in property development. Mr. Yeung was recognized as “Guangzhou Real Estate Excellent Contributor for 20 years” in 2005. Mr. Yeung is currently a member of the Standing Committee of the People’s Political Consultative Conference of Foshan (佛山市政協常務委員).

**Cui Jianbo (崔健波)**, aged 42, is the president and an executive Director of our Company. Mr. Cui graduated from the Beijing Institute of Technology (北京理工大學), majoring in accounting and is a qualified PRC accountant. He is primarily responsible for the management of daily operation and general administration of the Group. Prior to joining the Group in 2003 as the president, Mr. Cui was the deputy secretary of Shunde Local Taxation Bureau (順德市地方稅局) from 1995 to 2000 and the mayor of Beijiao Town Government (北滘鎮政府) from 2000 to 2003. Mr. Cui is also currently the deputy chairman of the Guangdong Real Estate Association (廣東省房地產協會).

**Yang Huiyan** (楊惠妍), aged 25, is an executive Director of our Company. Ms. Yang graduated from Ohio State University with a degree in marketing and logistic. She joined the Group in 2005 and served as the manager of the procurement department. She is primarily responsible for the overall supervision on procurement, enterprise resources management and formulation of development strategies. Ms. Yang is the daughter of Mr. Yeung Kwok Keung.

**Yang Erzhu** (楊貳珠), aged 56, is an executive Director of our Company. Mr. Yang graduated from the School of Economic Management of Jinan University. He is primarily responsible for managing the design and decoration of our property development projects and assisting the chairman in investment planning. From 1994 to 1997, Mr. Yang served as a deputy general manager of Shunde Sanhe Property Development Co., Ltd. From 1986 to 1997, Mr. Yang served as a deputy general manager of Shunde Beijiao Construction Company Limited and has served as a director and deputy general manager of Giant Leap Construction Co. and Shunde Country Garden Co. since 1997. Since 1999, he has been serving as a director and deputy general manager of Finest Decoration Co. Mr. Yang has over 30 years of experience in construction and approximately 13 years of experience in property development.

**Su Rubo** (蘇汝波), aged 52, is an executive Director of our Company. Mr. Su graduated from the School of Economic Management of Jinan University. He is primarily responsible for construction management, supervision and coordination of our property development projects in Jiangmen, Heshan, Taishan, Gaoming, Xinhui, Zhaoqing and Yangdong, Guangdong Province. From 1994 to 1997, Mr. Su served as a deputy general manager of Shunde Sanhe Property Development Co., Ltd. From 1986 to 1997, Mr. Su served as deputy general manager of Shunde Beijiao Construction Company Limited and has been serving as a director and deputy general manager of Giant Leap Construction Co. and Shunde Country Garden Co. since 1997. Mr. Su has over 30 years of experience in construction and approximately 13 years of experience in property development and approximately ten years of experience in procurement of construction materials.

**Zhang Yaoyuan** (張耀垣), aged 61, is an executive Director of our Company. He is primarily responsible for construction management, supervision and coordination of our property development projects in Guangzhou, Zengcheng, Nansha and Shaoguan, Guangdong Province. From 1994 to 1997, Mr. Zhang served as a deputy general manager of Shunde Sanhe Property Development Co., Ltd. From 1986 to 1997, Mr. Zhang served as manager and deputy general manager of Shunde Beijiao Construction Company Limited and has been serving as a director and deputy general manager of Giant Leap Construction Co. and Shunde Country Garden Co. since 1997. Mr. Zhang has over 40 years of experience in construction and approximately 13 years of experience in the management of property development.

**Ou Xueming** (區學銘), aged 58, is an executive Director of our Company. He is primarily responsible for construction management, supervision and coordination of our property development projects in Nanhai and Shunde, Guangdong Province. From 1994 to 1997, Mr. Ou served as a deputy general manager of Shunde Sanhe Property Development Co., Ltd.. From 1986 to 1997, Mr. Ou served as deputy general manager of Shunde Beijiao Construction Company Limited and has been acting as a director and deputy general manager of Giant Leap Construction Co. and Shunde Country Garden Co. since 1997. Mr. Ou has over 30 years of experience in construction and approximately 13 years of experience in the operation and management of property development.

**Yang Zhicheng** (楊志成), aged 33, is an executive Director of our Company and the director and general manager of Changsha Venice Co. He is primarily responsible for the overall development and management of our property project in Changsha, Hunan Province. Prior to joining the Group in 1997, Mr. Yang had worked in Shunde Sanhe Property Development Co., Ltd. as project manager. He had also served as the general manager of Jun'an Country Garden Co. and project general manager of the Group. Mr. Yang has approximately 13 years of experience in project development. Mr. Yang is a nephew of Mr. Yeung Kwok Keung.

**Yang Yongchao** (楊永潮), aged 32, is an executive Director of our Company and the general manager of our sales center. He is primarily responsible for our overall sales management. He has been responsible for the management of the operation and sales center of Shunde Country Garden Co. since 1997. Mr. Yang has approximately ten years of experience in property sales management, market research, product planning proposal, pricing, marketing, sales and customer resource management. Mr. Yang is a nephew of Mr. Yeung Kwok Keung.

#### **Independent Non-Executive Directors**

**Lai Ming, Joseph** (黎明), aged 62, is an independent non-executive Director of our Company. Mr. Lai is a fellow member of Hong Kong Institute of Certified Public Accountants (“HKICPA”), CPA Australia and the Chartered Institute of Management Accountants (“CIMA”) and the Hong Kong Institute of Directors. He was the president of HKICPA in 1986 and the president of the Hong Kong Branch of CIMA in 1974 to 1975 and 1979 to 1980. Mr. Lai was the managing director of Hsin Chong International Holdings Ltd., a substantial shareholder of Hsin Chong Construction Group Ltd which is a listed company in Hong Kong that engages primarily in construction and related business in Hong Kong, Macau and the PRC, from November 2001 until December 2003. He was also a non-executive director of Synergis Holdings Ltd, a Hong Kong listed company that is a property and facility management service provider in Hong Kong from August 2003 until August 2005 and an independent non-executive director of SNP Leefung Holdings Ltd. (a company previously listed on the Hong Kong Stock Exchange from August 2004 until its privatization in September 2006. Mr. Lai is an independent non-executive director of Dynasty Fine Wines Group Limited, Shinhint Acoustic Link Holdings Limited, Jolimark Holdings Limited and Guangzhou R&F Properties Co., Limited, a company mainly engaged in property development in the PRC, all of which are companies whose shares are listed on the Hong Kong Stock Exchange. Mr. Lai also holds directorships in several private companies engaging in property development. Mr. Lai is also a founding member and a director of Opera Hong Kong Ltd. and a director of the Hong Kong University of Science and Technology R & D Corporation Limited. He is currently a member of the investigation panel of the HKICPA. He is also an advisor to the corporate governance committee of the Hong Kong China Division of CPA Australia.

*Shek Lai Him, Abraham* (石禮謙) SBS, JP, aged 62, is an independent non-executive Director of our Company. Mr. Shek is a member of the Hong Kong Legislative Council and was appointed a Justice of the Peace in 1995. He also holds directorships in other companies and public service appointments as set out below:

#### Publicly listed companies

<u>Name of company</u>	<u>Title</u>
Midas International Holdings Limited . . . . .	Independent Non-executive Director and Audit Committee Member
Paliburg Holdings Limited . . . . .	Independent Non-executive Director and Audit Committee Member
Lifestyle International Holdings Limited . . . . .	Independent Non-executive Director and Audit Committee Member
Chuang's Consortium International Limited . . . . .	Independent Non-executive Director and Audit Committee Member
NWS Holdings Limited . . . . .	Independent Non-executive Director and Audit Committee Member
See Corporation Limited . . . . .	Independent Non-executive Director and Audit Committee Member
Titan Petrochemicals Group Limited . . . . .	Independent Non-executive Director and Audit Committee Member
Eagle Asset Management (CP) Limited (The manager of Champion Real Estate Investment Trust) . . . . .	Independent Non-executive Director, Audit Committee Member and Disclosures Committee Member
Regal Portfolio Management Limited (The manager of Regal Real Estate Investment Trust) . . . . .	Independent Non-executive Director and Audit Committee Member
ITC Corporation Limited . . . . .	Independent Non-executive Director and Audit Committee Member
Hop Hing Holdings Limited . . . . .	Independent Non-executive Director

#### Private companies

<u>Name of company</u>	<u>Title</u>
Wellco Holdings Limited . . . . .	Executive Director
Styletec Building Materials Limited . . . . .	Executive Director
Chinese Estates Group Asset Management Company Limited . . . . .	Independent Non-executive Director
E. Lite Asset Management Limited . . . . .	Independent Non-executive Director (resigned on June 29, 2007)
Raffles Campus (HK) Limited . . . . .	Non-executive Director (resigned on May 31, 2007)
Bright Management Limited . . . . .	Non-executive Director
Hong Kong Hotel Asset Management Limited . . . . .	Independent Non-executive Director
Hong Kong Architecture Centre Ltd . . . . .	Director
Hop Hing Holdings Group Ltd . . . . .	INED (appointed as from September 4, 2007)

#### Public service appointments

<u>Body/Organization</u>	<u>Position</u>
HKSAR Legislative Council . . . . .	Member
Kowloon-Canton Railway Corporation . . . . .	Member of the Managing Board
The Hong Kong Mortgage Corporation Limited . . . . .	Director

Mr. Shek was also an independent non-executive director of New World TMT Limited, the shares of which were listed on the Hong Kong Stock Exchange, from 2004 to 2006.

**Tong Wui Tung, Ronald** (唐滙棟), aged 57, is an independent non-executive Director of the Company. He has been practising as a solicitor in Hong Kong for over 20 years and is a partner of the law firm, Messrs. Cheung, Tong & Rosa. He is also a Notary Public and a China Appointed Attesting Officer, and is admitted as a solicitor in several other jurisdictions. Mr. Tong was a non-executive director of Multifield International Holdings Limited from September 1997 to September 2004, an independent non-executive director of Beauforte Investors Corporation Limited from November 2000 to March 2004, an independent non-executive director of Wonson International Holdings Limited from December 1999 to November 2006 and a non-executive director of Perfectech International Holdings Limited from August 1994 to May 2007. Mr. Tong is currently a non-executive director of Yip's Chemical Holdings Limited. All of these companies are listed on the Hong Kong Stock Exchange.

Mr. Tong was a non-executive director of Innovative International (Holdings) Limited (subsequently renamed as Carico (Holdings) Limited, also listed on the Hong Kong Stock Exchange) from August 1995 to December 2002. Innovative International (Holdings) Limited entered into a debt restructuring agreement in July, 2001 for an amount of debt of approximately HK\$660 million. Receivers and managers of all the property and assets of Innovative International (Holdings) Limited were appointed in October, 2001 pursuant to terms of a composite guarantee and debenture granted to its secured creditors. Thereafter, Innovative International (Holdings) Limited entered into schemes of arrangement for restructuring in both Hong Kong and Bermuda. Mr. Tong remained as a non-executive director of Innovative International (Holdings) Limited until the restructuring was completed on December 20, 2002. Mr. Tong has confirmed that there was no wrongful act on his part leading to the debt restructuring of Innovative International (Holdings) Limited and that, as far as Mr. Tong is aware, no actual or potential claim has been or will be made against him as a result of such debt restructuring.

#### **QUALIFIED ACCOUNTANT**

**Wong Tak Chuen** (黃德銓), aged 42, is the chief financial officer of our Company and our qualified accountant on a full-time basis. Mr. Wong joined the Group in September 2006. Mr. Wong graduated from the Hong Kong Polytechnic University with a professional diploma in accountancy. Mr. Wong is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. Mr. Wong has over 18 years of experience in auditing, financial management, mergers and acquisitions gained through his past employments with an international accounting firm in Hong Kong, companies listed in Hong Kong and a company listed in the United States.

#### **COMPANY SECRETARY**

**Huen Po Wah** (瀾寶華), aged 58, is our company secretary. Mr. Huen joined the Group in March 2007. Mr. Huen is an associate of The Hong Kong Institute of Chartered Secretaries and also an associate of The Institute of Chartered Secretaries and Administrators. Mr. Huen is also a director of Fair Wind Secretarial Services Limited. Mr. Huen has over 25 years of experience in company management and secretarial fields and has served in many listed companies over the years.

#### **SENIOR MANAGEMENT**

**Song Jun** (宋軍), aged 39, is a vice-president of our Company. Mr. Song graduated from the Chongqing College of Construction and Architecture (重慶建築工程學院), currently known as Chongqing University (重慶大學), with a degree in architecture and is a qualified PRC architect. Mr. Song is responsible for the overall management and supervision of our property development projects. Prior to joining the Group in 1997, he worked in Xiangxi Construction Institute (湘西自治州建築規劃勘察設計院) and Elite Architectural Co. with responsibility for architectural design work. Since 1997, he has been serving in Shunde Country Garden Co. as

project manager and project supervisor responsible for the management of property development. Mr. Song has approximately ten years of experience in the management of property development.

**Xie Shutai** (謝樹太), aged 42, is a vice-president of our Company. Mr. Xie graduated from Hunan University (湖南大學) with a degree in civil engineering and is a qualified PRC civil engineer. He is responsible for the overall management of our hotels and property management companies. Prior to joining the Group in 1997, he had worked in Hengyang City Construction Institute (衡陽市建築設計研究院) from 1986 to 1991 with responsibility for structural design work and worked in Shunde Sanhe Property Development Co., Ltd. from 1992 to 1997 with responsibility for property management. Since 1997, he has been working in Shunde Country Garden Co. and Guangdong Management Co. responsible for the overall property and hotel management of the Group. Mr. Xie has approximately 15 years of experience in property management and approximately ten years of experience in hotel management.

**Wang Zhidun** (王志敦), aged 37, is a vice-president of our Company. Mr. Wang graduated from Shantou University (汕頭大學), majoring in international business laws and is a qualified PRC lawyer. Mr. Wang is responsible for investment development and legal matters of the Group. He joined the Group in 2003 and prior to joining the Group, Mr. Wang was a partner in Guangdong Bowen Law Offices from 1996 to 2003.

**Hu Ran** (胡冉), aged 37, is a vice-president of our Company. Mr. Hu graduated from Tsing Hua University (清華大學), majoring in hydraulic-engineering and corporate management. He also studied a master degree in industrial external trading and is now studying a doctoral degree in finance at the National Sun Yat-Sen University (中山大學). Mr. Hu is responsible for capital management and the management of our finance department and audit department. He joined the Group in 2006 and prior to joining the Group, Mr. Hu was the vice-head of China Citic Bank Guangzhou Branch Beixiu Sub-branch (中信銀行廣州分行北秀支行) as well as the general manager of China Southern Airline Group Finance Company (中國南航集團財務公司).

## COMPENSATION OF DIRECTORS

Our executive Directors receive remuneration in the form of salaries, discretionary bonuses, contributions to pension schemes and benefits in kind. The aggregate salary paid to our executive Directors for each of the three years ended December 31, 2004, 2005 and 2006, and the six months ended June 30, 2007, was approximately RMB4.0 million, RMB5.2 million, RMB7.4 million and RMB3.0 million, respectively. In accordance with the rules and regulations in the PRC, our PRC based employees, including employees who are Directors, participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. For the years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2007, we contributed RMB14,000, RMB13,000, RMB15,000 and RMB8,000, respectively, to the plans in respect of our executive Directors. The aggregate amounts of compensation (including salaries, discretionary bonuses, contributions to pension schemes and benefits in kind) which were paid to our executive Directors during each of the three years ended December 31, 2004, 2005 and 2006, and the six months ended June 30, 2007 were approximately RMB4.7 million, RMB6.6 million, RMB8.9 million and RMB5.9 million, respectively.

Save as disclosed above, no other amounts have been paid or are payable by us to the Directors in respect of each of the three years ended December 31, 2004, 2005 and 2006, and the six months ended June 30, 2007.

## AUDIT COMMITTEE

We established an audit committee on December 5, 2006. The audit committee is to serve as a focal point for communication between other directors, the external auditors and the internal auditors (where an internal audit function exists) of the Company as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other financial and accounting matters as the Board determine

from time to time. The audit committee is to assist our Board of Directors in providing an independent review of the effectiveness of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as may be assigned by our Board of Directors from time to time. The members of the audit committee are our independent non-executive Directors, namely Mr. Lai Ming, Joseph, Mr. Shek Lai Him, Abraham and Mr. Tong Wui Tung, Ronald. Mr. Lai Ming, Joseph is the chairman of the audit committee.

## REMUNERATION COMMITTEE

We established a remuneration committee on December 5, 2006. The remuneration committee consists of five members, of whom two are executive Directors being Mr. Yeung Kwok Keung and Mr. Cui Jianbo, and three are independent non-executive Directors being Mr. Lai Ming, Joseph, Mr. Shek Lai Him, Abraham and Mr. Tong Wui Tung, Ronald. The primary duty of the remuneration committee is to review and formulate policies in respect of remuneration structure for all our Directors and senior management and make recommendations to our Board of Directors for its consideration. Mr. Yeung Kwok Keung is the chairman of the remuneration committee.

## Directors' and Chief Executives' Interests

As of June 30, 2007, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company as recorded in the register which were required to be kept under section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

<u>Name of Director</u>	<u>Capacity</u>	<u>Number of ordinary shares<sup>(1)</sup></u>	<u>Percentage to issued share capital</u>
Ms. Yang Huiyan . . . . .	Interest of Controlled Corporation	9,520,000,000	58.19%
Mr. Yang Erzhu . . . . .	Interest of Controlled Corporation	1,632,000,000	9.98%
Mr. Su Rubo . . . . .	Interest of Controlled Corporation	816,000,000	4.99%
Mr. Zhang Yaoyuan . . . . .	Interest of Controlled Corporation	816,000,000	4.99%
Mr. Ou Xueming . . . . .	Interest of Controlled Corporation	816,000,000	4.99%

*Note:*

(1) These shares represent shares held by Concrete Win Limited, Automic Group Limited, Easy Hope Holdings Ltd, Acura International Global Limited and Highlander Group Limited ("Highlander"), a BVI limited liability company wholly owned by Ou Xueming, in which Ms. Yang Huiyan, Mr. Yang Erzhu, Mr. Su Rubo, Mr. Zhang Yaoyuan and Mr. Ou Xueming, respectively, beneficially owns the entire issued share capital.

## PRINCIPAL SHAREHOLDERS

As of June 30, 2007, the interests persons, other than the Directors or chief executive of the Company in the shares and the underlying shares of the Company representing 5% or more of the nominal value of shares comprised in the relevant share capital of the Company as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Number of ordinary shares</u>	<u>Percentage to issued share capital</u>
Concrete Win Limited . . . . .	Beneficial Owner	9,520,000,000 <sup>(1)</sup>	58.19%
Automic Group Limited . . . . .	Beneficial Owner	1,632,000,000 <sup>(1)</sup>	9.98%

*Notes:*

- (1) These 9,520,000,000 shares are held by Concrete Win Limited, the entire issued share capital of which is beneficially owned by Ms. Yang Huiyan.
- (2) These 1,632,000,000 shares are held by Automic Group Limited, the entire issued share capital of which is beneficially owned by Mr. Yang Erzhu.

Save as disclosed, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will have an interest or short position in the shares or underlying shares of the Company as representing 5% or more of the nominal value of Shares comprised in the relevant share capital of the Company.



## RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions in 2004, 2005, 2006 and the six months ended June 30, 2007 between our consolidated subsidiaries and our directors, executive officers and original shareholders and, in each case, the companies with which they are affiliated. In 2004, 2005 and 2006 and the six months ended June 30, 2007, the aggregate amount of our related party transactions (in accordance with HKFRS) was RMB675.4 million, RMB741.2 million, RMB695.0 million and RMB394.7 million, respectively. We discontinued some of these related party transactions after our IPO in April 2007. In 2004, 2005 and 2006 and the six months ended June 30, 2007, the aggregate amount of the related party transactions that we have discontinued since our IPO was RMB407.5 million, RMB347.9 million, RMB164.7 million and RMB30.3 million, respectively.

The following table summarizes our related party transactions for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2004	2005	2006	2006	2007
	(RMB in thousands)				
	(unaudited)				
<b>Construction and decoration service income</b>					
Controlled by original shareholders <sup>(1)</sup> . . . . .	195,336	326,136	404,540	215,428	321,629
Controlled by close family members of original shareholders . . . . .	574	1,206	14,956	12,892	—
Controlled by original shareholders and their close family members . . . . .	302,054	187,788	13,827	497	—
<b>Sales of properties</b>					
Original shareholders . . . . .	—	—	8,713	8,713	—
Close family members of original shareholders . . . . .	400	3,794	24,935	24,935	—
<b>Purchase of design service</b>					
Controlled by original shareholders . . . . .	53,492	51,146	70,928	22,244	27,153
<b>Purchase of construction material and water</b>					
Controlled by original shareholders and their close family members . . . . .	13,604	20,066	67,909	38,448	42,028
<b>Purchase of construction material</b>					
Controlled by close family members of original shareholders . . . . .	67,795	86,675	51,644	49,188	—
<b>Loan interest charged by related parties</b>					
Original shareholders . . . . .	14,837	19,400	8,811	8,811	—
Close family members of original shareholders . . . . .	16,653	20,634	7,791	7,791	—
Controlled by original shareholder . . . . .	—	—	2,644	—	—
Controlled by close family members of original shareholders . . . . .	5,210	16,578	7,635	7,610	—
<b>Key management compensation</b>					
Salaries and other short-term employee benefits . . . . .	5,422	7,745	10,690	3,349	3,894
<b>Total</b> . . . . .	<u>675,377</u>	<u>741,168</u>	<u>695,023</u>	<u>399,906</u>	<u>394,704</u>

*Note:*

(1) Our “original shareholders” refer to Yang Huiyan, Yang Erzhu, Su Rubo, Zhang Yaoyuan and Ou Xueming.

Substantial all of our related parties transactions after our IPO arose from trade activities. As of June 30, 2007, we had the following significant trading balances with our related parties:

<u>Balances due from related parties—</u>	As of December 31,			As of
	2004	2005	2006	June 30, 2007
	(RMB in thousands)			(unaudited)
Included in trade receivables . . . . .	14,740	26,055	—	11,762
Included in amounts due from customers for contract work . . . . .	534,944	401,395	92,623	260,376
Included in other receivables . . . . .	723,388	1,719,844	638,797	—
<b>Total</b> . . . . .	<u>1,273,072</u>	<u>2,147,294</u>	<u>731,420</u>	<u>272,138</u>
<u>Balances due to related parties—</u>				
Included in trade payables . . . . .	111,451	154,255	37,567	30,730
Included in advanced proceeds from customers . . . . .	260,000	—	—	—
Included in other payables . . . . .	1,056,649	464,841	—	—
<b>Total</b> . . . . .	<u>1,428,100</u>	<u>619,096</u>	<u>37,567</u>	<u>30,730</u>

As of December 31, 2004, 2005 and 2006 and June 30, 2007, we had the following significant loan balances with related parties:

<u>Loans from related parties</u>	As of December 31,			As of
	2004	2005	2006	June 30, 2007
Original shareholders . . . . .	189,944	225,317	—	—
Controlled by original shareholders . . . . .	—	—	64,592	—
Close family members of original shareholders . . . . .	205,776	208,888	—	—
Controlled by close family members of original shareholders . . . . .	110,000	210,000	—	—
<b>Total</b> . . . . .	<u>505,720</u>	<u>664,205</u>	<u>64,592</u>	<u>—</u>

### Construction and decoration services

A substantial amount of our related party transactions consist of construction and decoration services we provided to related parties. Pursuant to two contracts dated on November 9 and November 15, 2006, and various contracts entered into between August 10, 2005 and April 10, 2006, we provide decoration and construction services through our subsidiaries, Finest Decoration Co. (for interior decoration) and Giant Leap Construction Co. (for construction), to Qingyuan Country Garden Co., a company controlled by our original shareholders. We sell such construction and decoration services to Qingyuan Country Garden Co. with reference to market prices and on terms no more favorable than those offered by independent third parties for comparable services. In 2004, 2005 and 2006 and the six months ended June 30, 2007, the aggregate charge for the services we provided to Qingyuan Country Garden Co. amounted to RMB195.3 million, RMB314.3 million, RMB380.8 million and RMB291.3 million, respectively. We do not intend to provide any further decoration or construction services to Qingyuan Country Garden Co. after the relevant contracts expire on October 31, 2007 and April 9, 2009, respectively. We estimate that the maximum total fee for construction will not exceed RMB590.0 million for each of the three years ending December 31, 2007, 2008 and 2009, and the maximum total fee for decoration to be charged to Qingyuan Country Garden Co. will not exceed RMB34.0 million for the year ending December 31, 2007.

We also provide construction and decoration services to Qingyuan Country Cultural Development Co., Ltd. and Guangdong Country Garden School. Our total service fees we received from them in 2004, 2005 and

2006 and the six months ended June 30, 2007 were, respectively, nil, RMB11.9 million, RMB23.7 million and RMB30.3 million.

### **Purchase of design services**

Our design work is mainly undertaken by Elite Architectural Co., which is controlled by one of our original shareholders. In 2004, 2005 and 2006 and the six months ended June 30, 2007, all of our design work was undertaken by Elite Architectural Co. The design services are provided on terms (including but not limited to pricing) no less favorable than those offered by independent third parties for comparable services. For the same periods, the total purchase prices amounted to RMB53.5 million, RMB51.1 million, RMB70.9 million and RMB27.2 million, respectively. We estimate that the maximum total fees for design services provided by Elite Architectural Co. to us will not exceed RMB75.0 million for each of three years ending December 31, 2007, 2008 and 2009.

### **Purchase of cement products**

We purchase cement products from Foshan Shunde Grand Cement Co., Ltd. (“Grand Cement Co.”), a company controlled by our original shareholders, for the construction of most of our property development projects. The cement products are sold to us on terms (including but not limited to pricing) no less favorable than those offered by Grand Cement Co. to independent third parties. For each of the three years ended December 31, 2004, 2005 and 2006, purchases of cement products from Grand Cement Co. amounted to approximately RMB44.0 million, RMB120.8 million and RMB104.2 million, respectively, which represented approximately 89.4%, 93.9% and 88.2% of the total cement products purchased by us. We estimate that the maximum amount of annual purchases of cement products by us from Grand Cement Co. will not exceed RMB240 million for each of the three years ending December 31, 2007, 2008 and 2009.

### **Other related party transactions**

Other related transactions include the purchase of construction materials and water from our original shareholders and their controlled companies. Generally, the terms of such transactions (including but not limited to pricing or rates, as applicable) are no less favorable than those offered by independent third parties for comparable products and services. We estimate that the maximum total fee for other such ongoing transactions will not exceed an aggregate of approximately RMB60.0 million for each of three years ending December 31, 2007, 2008 and 2009.

### **Guarantee and Pledge**

As of December 31, 2004 and 2005, our land use rights with net book amounts totaling RMB94.2 million and RMB179.7 million, respectively, were pledged as collateral for the borrowings of Qingyuan Country Garden. This pledge was released on December 31, 2006 before our IPO in April 2007.

Our borrowings of RMB2,109.0 million, RMB3,680.5 million and RMB4,016.7 million at the end of 2004, 2005 and 2006 were jointly secured by certain properties and land use rights of the Group and of certain related parties, and also jointly guaranteed by some of our subsidiaries and related parties. All of the guarantees and security provided by our related parties were released on or before our IPO in April 2007.

For further information about our related party transactions, see Note 34 to the financial statements as of and for the years ended December 31, 2004, 2005 and 2006 and Note 23 to the financial statements as of June 30, 2007 and for the six months ended June 30, 2006 and 2007.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing property projects and to finance our working capital requirements, we have borrowed money from various banks. As of September 30, 2007, our total indebtedness for interest-bearing bank loans totaled RMB3,595.1 million. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

### PROJECT LOAN AGREEMENTS

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, primarily Bank of China, Agricultural Bank of China, China Construction Bank, Industrial and Commercial Bank of China, China Minsheng Bank, Shunde Beijiao Agricultural Credit Union, Guangzhou Panyu Agricultural Credit union and Citibank, Shenzhen Branch. These loans typically are project loans to finance the construction of our projects (the “project loans”) and have terms ranging from one year to five years, which generally correspond to the construction periods of the particular projects. As of June 30, 2007, the aggregate outstanding amount under these project loans totaled approximately RMB4,606.4 million, RMB1,270.5 million of which was due within one year and RMB3,335.9 million of which was due between one and five years.

### Interest

The principal amounts outstanding under the project loans generally bear interest at floating rates calculated by reference to the relevant bank’s benchmark interest rate per annum. Floating interest rates generally are subject to review by the banks annually. Interest payments generally are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of June 30, 2007, the weighted average interest rate on the aggregate outstanding amount of our project loans was 6.422% per annum.

### Covenants

Under these project loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the lenders’ prior consent:

- create encumbrances on any part of their properties or assets or deal with their assets in a way that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties that may adversely affect their ability to repay their loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations or change the company’s status, such as liquidation and dissolution;
- alter the nature or scope of their business operations in any material respect;
- transfer part or all of the liabilities under the loans to a third party; and
- prepay the loan.

### Dividend Restriction

Pursuant to the project loans with Shunde Beijiao Agricultural Credit Union and Agricultural Bank of China, Shunde Branch, some of our PRC subsidiaries also agreed not to distribute any dividends:

- if the distribution exceeds 50% of the borrower’s after-tax profit;
- before the principal amount of and accrued interest on the relevant project loan have been fully paid; or
- without the bank’s prior consent.

## **Guarantee and Security**

Certain of our PRC subsidiaries and associates have entered into guarantee agreements with the PRC banks in connection with some of the project loans pursuant to which these subsidiaries and associates have guaranteed all liabilities of the subsidiary borrowers under these project loans. Further, as of June 30, 2007, RMB4,606.4 million of the project loans were secured by land use rights and properties of the subsidiary borrowers or guaranteed by our other PRC subsidiaries.

## **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 June 30, 2007, the aggregate outstanding amount guaranteed was RMB6,918.6 million.

## **TERM LOAN**

On October 15, 2007, we entered into a facility agreement as borrower in connection with a six months non-revolving term loan facility with Bank of China (Hong Kong) Limited, as lender, for an aggregate principal amount up to HK\$1,500,000,000 for the purpose of financing our working capital. We intend to draw the entire principal amount available under this facility in the near future.

## **Guarantors**

Angel View International Limited, Estonia Development Ltd., Falcon Investments Development Ltd. and Impreza Group Limited, each a wholly-owned subsidiary of the Company, are guarantors (each a "Term Loan Guarantor") under the term loan facility. Each Term Loan Guarantor provides a corporate guarantee for the repayment of up to the full principal balance of the loan and accrued interest and defaulted interest and other costs and expenses.

## **Interest**

Under the facility agreement, the interest applicable for an interest period is a margin over the Hong Kong Interbank Offered Rate ("HIBOR") for that interest period. If we fail to pay the sum due on its payment date, interest shall accrue on the unpaid sum from the due date up to the date of actual payment at a higher margin over HIBOR. Undrawn balance of the facility agreement bears a commitment fee.

## **Maturity and Prepayment**

The loan facility under the facility agreement is due six months from the date of the first drawdown or at any time prior to such date on demand of the lender.

We may prepay all or any part of the term loan facility provided we give 30 days notice of such expected prepayment. If prepayment is made without such advance notice, a prepayment fee will be charged. Subject to certain exceptions, if we prepay the loan facility, in full or in part within three months, a prepayment charge will be payable.

## **Covenants**

Pursuant to the facility agreement, we agreed to the following financial covenants:

- our consolidated tangible net worth shall not at any time be less than RMB15,500,000,000;

- the consolidated bank borrowings shall not at any time be more than RMB16,600,000,000
- the ratio of consolidated current assets to consolidated current liabilities in respect of any relevant period shall not be less than 1.50:1;
- the ratio of consolidated net borrowings to consolidated tangible net worth shall not at any time be more than 0.80:1;
- the ratio of consolidated net borrowings to consolidated EBITDA in respect of any relevant period shall not be more than 3.00:1.

We have further agreed, among other things that:

- the Company will not merge or consolidate with or into any other corporation or take any step with a view to dissolution or winding up;
- the Company will not make any material change to its business;
- the Company will not create, incur or suffer or permit to exist any charge upon any of the Company's property, assets, revenues or rights, present or future, except in favor of the lender;
- the Company will not make loans, advance moneys, grant credit to or guarantee or indemnify the liability of any person, firm or company;
- there be no material change in the existing registered or ultimate beneficial shareholding of the Company without the prior written consent of the lender;
- Ms. Yang Huiyan and Mr. Yang Erzhu shall maintain not less than 50% shareholding in the Company (whether directly or indirectly);
- Mr. Yeung Kwok Keung shall remain as the chairman of the Company;
- we maintain our listing on the Hong Kong Stock Exchange; and
- upon the financing of a new syndicated loan and/or a bond or indenture, we will repay/prepay the facility in full.

### **Events of Default**

The facility agreement contains certain customary events of default, including nonpayment of principal or interest, insolvency and breaches of the terms of the facility agreement. If an event of default has occurred, the lender may by notice to the Company declare that an event of default has occurred and that all advances under the facility together with all interest accrued thereon shall become immediately due and payable and no further advances may be drawn under the facility agreement.