

INDUSTRY OVERVIEW

Investors should note that this industry overview section contains information and statistics that are derived from government publications, data we purchased from China Index Academy (中國指數研究院) and iResearch Consulting Group and publicly available data.

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PROPERTY MANAGEMENT INDUSTRY IN THE PRC

China Index Academy and Its Methodology

We purchased the right to use and quote various data from publications by China Index Academy at a total cost of approximately RMB0.3 million. Established in 1994, China Index Academy is a professional property research organization in the PRC with over 500 analysts. It covers the five regions of Northern China, Eastern China, Southern China, Central China and Southwestern China with 20 branches, and its research covers more than 300 cities across the PRC. China Index Academy has extensive experience in researching and tracking the property management industry in the PRC, and has conducted research on the top 100 property management companies in the PRC since 2008.

In its research, China Index Academy considers primarily property management companies that have managed at least five properties or 100,000 sq.m. of GFA for the past three years. China Index Academy uses research parameters and assumptions by gathering data from a multitude of primary and secondary sources, including data from the property management companies (including data from reported statistics, websites and marketing materials), surveys conducted by China Index Academy, data gathered from the China Real Estate Index System (“CREIS”), the China Real Estate Statistics Yearbooks, public data from governmental authorities and data gathered for prior reports published by China Index Academy. China Index Academy derives its rankings of overall strength of property management companies by evaluating each property management company's operational scale, financial performance, service quality, growth potential and social responsibility. China Index Academy assesses the growth potential of a property management company in terms of various factors, including revenue growth rate, number of outstanding contracts on hand and growth rate of contracted GFA. In this section, the data analysis is primarily based on the top 100 property management companies ranked by China Index Academy based on the factors mentioned above.

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Origin of the Property Management Industry in the PRC

Shenzhen Special Economic Zone (“**Shenzhen SEZ**”) was established in 1980’s. With Shenzhen SEZ’s establishment and development, its real estate industry also experienced rapid growth. The history of PRC property management industry dates back to 1981, when the nation’s first property management company was established in Shenzhen. The development of Shenzhen’s property management industry was subsequently replicated in other regions throughout the PRC, and the industry has since experienced robust growth. According to China Index Academy, the PRC property management industry is currently very fragmented.

Market Conditions Affecting the PRC Property Management Industry

Increased urbanization and disposable income

The PRC has experienced substantial growth in its urbanization and disposable income per capita, which we believe drives the growth of China’s real estate industry. The table below sets forth selected figures showing China’s urbanization level and the disposable income per capita for the period from 2008 to 2013.

	2008	2009	2010	2011	2012	2013
Urban population (in million) ..	624.0	645.1	669.8	690.8	711.8	731.1
Total population (in million) ...	1,328.0	1,334.5	1,340.9	1,347.4	1,354.0	1,360.7
Urbanization rate (%)	47.0%	48.3%	49.9%	51.3%	52.6%	53.7%
Annual disposable income per capita (in RMB)	15,781	17,175	19,109	21,810	24,565	26,955

Source: National Bureau of Statistics of China

Increased land supply

Concurrent with the rapid urbanization and growing disposable income per capita, the PRC government has increased its land supply over the past years. New land supply (site area) for property use increased from approximately 752.2 million sq.m. in 2008 to approximately 2,000.0 million sq.m. in 2013, representing a CAGR of approximately 21.6%. During the same period, the total GFA of residential properties under construction in China also increased from approximately 2,228.9 million sq.m. in 2008 to approximately 4,863.5 million sq.m. in 2013, representing a CAGR of approximately 16.9%. During the same period, the GFA of completed residential properties also increased from approximately 543.3 million sq.m. in 2008 to approximately 787.4 million sq.m. in 2013, representing a CAGR of approximately 7.7%. The table below sets forth data relating to the new land supply (site area) for property use, GFA of residential properties under construction and GFA of completed residential properties in China from 2008 to 2013:

	2008	2009	2010	2011	2012	2013	CAGR between 2008 to 2013
New land supply (site area) for property use (million sq.m.) ...	752.2	1,028.4	1,531.2	1,673.0	1,602.0	2,000.0	21.6%
GFA of residential properties under construction (million sq.m.)	2,228.9	2,513.3	3,147.6	3,877.1	4,289.6	4,863.5	16.9%
GFA of completed residential properties (million sq.m.)	543.3	596.3	634.4	743.2	790.4	787.4	7.7%

Sources: National Bureau of Statistics of China and Ministry of Land and Resources

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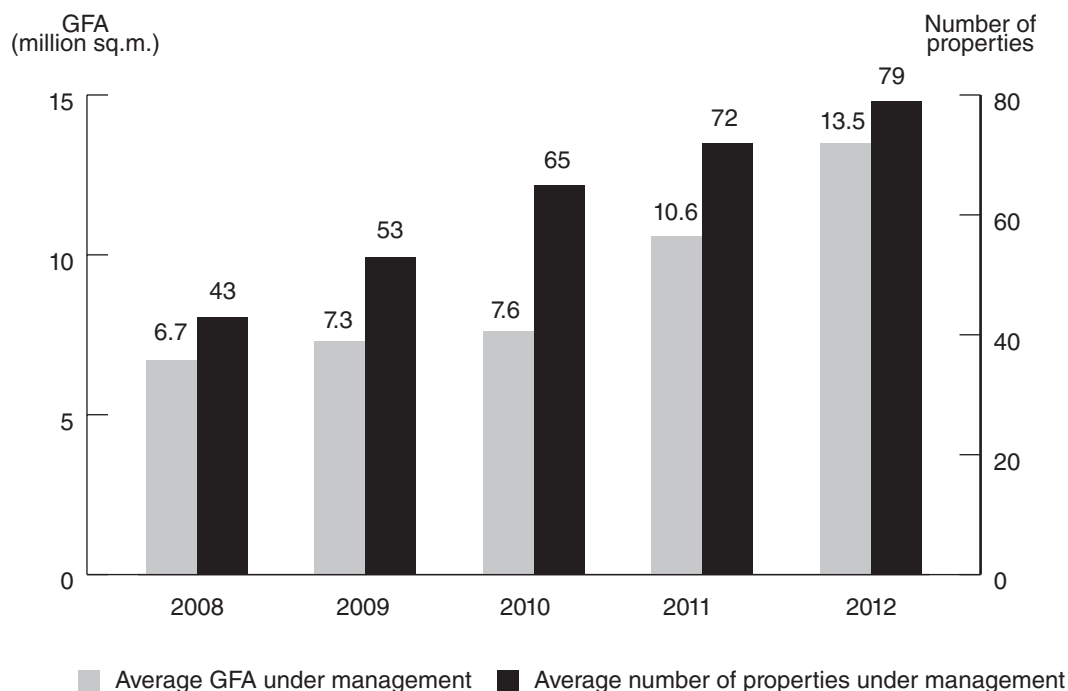
Overview of the PRC Property Management Industry

Overview of industry participants

According to China Index Academy, the PRC property management industry has been evolving since the 1980's. The industry is currently very fragmented.

From 2008 to 2012, the average GFA managed by the top 100 property management companies grew from 6.7 million sq.m. to 13.5 million sq.m., representing a CAGR of 19.1%. In 2012, while government's macroeconomic measures intensified and the trend of rapid growth of the real estate market was curbed under control, the top 100 property management companies still managed to sustain their competitive advantage in the market by leveraging their brand recognition and high quality services. By the end of 2012, the top 100 property management companies managed 79 properties on average, representing a CAGR of 16.4% since 2008. The chart below sets forth the average GFA and the average number of properties under management by the top 100 property management companies (in 2012) for the period from 2008 to 2012:

Average GFA and Average Number of Properties Under Management by Top 100 Property Management Companies in 2012 (2008-2012)



Source: China Index Academy; China Index Academy had not published 2013 data as of the Latest Practicable Date

In terms of geographical coverage, since 2008, the top 100 property management companies have established presence in an increasing number of locations, reaching an average of 21 cities as of the end of 2012. According to China Index Academy, among the top 100 property management companies in 2012, 20 of such companies had presence in more than 20 cities, 22 had presence in between 10 to 20 cities, 26 had presence in five to 10 cities, and 32 had presence in fewer than five cities.

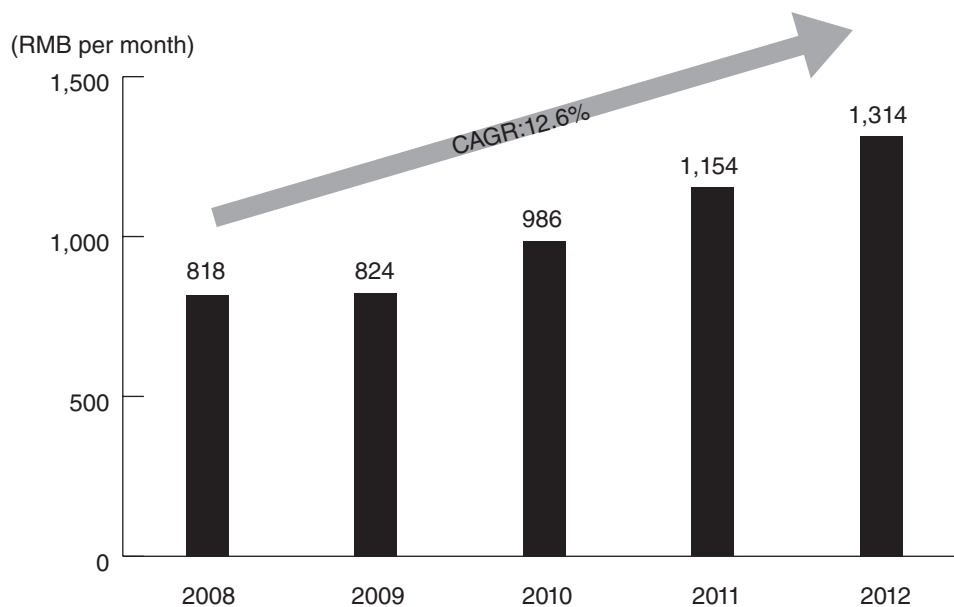
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According to China Index Academy, the top 100 property management companies have strengthened their business scale within cities where they already have some presence by increasing the number of properties they manage in those cities. Furthermore, some of the top 100 property management companies are transforming from regional to national enterprises with a relatively fast pace of expansion, and some of them also pursue acquisitions to accelerate expansion.

Traditional labor intensive property management services

According to China Index Academy, the PRC property management industry involves a number of labor intensive process within their traditional scope of service, including security, cleaning, gardening, landscaping and repair and maintenance. In addition to labor, the industry also has a strong demand for technical and managerial professionals, as such individuals have a direct influence on operational results, service quality and future growth. As of the end of 2011 and 2012, the average headcount at the top 100 property management companies was 2,973 and 3,024, respectively. As of the end of 2011 and 2012, the average GFA managed by the top 100 property management companies was 10.6 million sq.m. and 13.5 million sq.m., respectively. This implies that these companies employed an average headcount of 281 and 224 employees per million sq.m. under their management for the respective periods. Concurrent with the growing headcount, average labor costs also continued to increase. The increasing labor costs and the continuous increase in utilities and material costs under the impact of inflation in recent years had led to the rising costs of property services. The chart below sets forth the average minimum wages per month in major cities (Beijing, Shanghai, Shenzhen and Guangzhou) during the periods indicated:

Average Minimum Wages in Major Cities (Beijing, Shanghai, Shenzhen and Guangzhou) (2008-2012)



Source: China Index Academy; China Index Academy had not published 2013 data as of the Latest Practicable Date

Meanwhile, the average fees property management companies charged remained largely unchanged. For instance, according to China Index Academy, property management fee level in these cities had a minimal increase of 0.9% in 2012 compared to 2011. The growth in fees was

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lower than the increase in labor costs. The rising costs of property services together with the minimal change in fee charged for property management services resulted in the lower profit margin for the traditional businesses offered by property management companies in general. It has been a priority for such companies to lower their property management costs by means of centralized operations.

Low standardization rates

According to China Index Academy, there is in principle no unified standard dictating the quality of services in the property management industry in China. As such, the quality of services provided may vary widely among different property management companies. Some property management companies have lowered the quality of services due to an increase in labor costs, resulting in a reduced level of resident satisfaction. The increasing level of urban development leads to detailed classification of a city's development and property owners' increasingly higher expectation in property services. Property management companies are expected to be more involved in organizing, integrating and allocating resources. It is expected that property management companies will strive to standardize the quality of services in the future based on property owners' requirements, and the process will enhance the development of the property management industry in China.

Profitability of the PRC property management companies

In 2012, the top 100 property management companies were able to strengthen their businesses in cities where they have an established presence as well as actively explore new markets with potential opportunities. As opposed to primarily focusing on residential properties in the past, they have also expanded their scope of business to cover a variety of property types including commercial, public and industrial properties. The increase in service offerings has contributed to the steady growth of their revenue from property services fees. In addition to property management services, these property management companies have been increasingly diversifying from being pure property management companies to also offering other diversified services, which are services other than property management services, according to China Index Academy.

According to China Index Academy, the top 100 property management companies made adjustments to their business model by further developing their diversified services on the foundation of property management services business, with an aim to secure sustainable growth in profits while effectively controlling the operating costs. The pace of growth slowed down in both 2011 and 2012, primarily due to the increased operating costs including labor costs and the difficulties in raising property management fees, which led to the sustained slowdown in the pace of growth of the traditional businesses of the top 100 property management companies. At the same time, diversified services business developed rapidly and achieved higher growth for three consecutive years. According to China Index Academy, diversified services may have become a fundamental driving force for sustainable profitability.

Through expanding their business scope, the top 100 property management companies have been able to steadily grow their profitability by gradually forming a business model that offers property management services complemented by diversified services. As the top 100 property management companies adjusted their business model, they were able to optimize and integrate internal resources and control operating costs, which in turn enhanced their profit margins. According to China Index Academy, the average net profit margins of the top 100 property management companies were 5.5%, 6.2%, 6.8%, 7.4% and 8.0% in 2008, 2009, 2010, 2011 and 2012, respectively.

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Trends in the PRC Property Management Industry

Increasingly suppressed profitability from labor intensive traditional property management services

Since the inception of the property management services in the PRC in the 1980s, the industry has involved labor intensive traditional services components, including security, cleaning and gardening and repair and maintenance services.

According to China Index Academy, property management companies relying primarily on these traditional services are facing certain operational difficulties. Growth has slowed as operational costs continue to rise and profitability has come under increasing pressure. Moreover, expansion alone no longer yields corresponding increases in earnings. Against such a backdrop, many property management companies are forced to compromise either service quality or profitability.

Transition to adopt standardization and automation

According to China Index Academy, business model innovation and technological supports are among the basic principles underlying the expedited development of the modern services industries, including the property management industry, as indicated by the PRC Ministry of Science and Technology. According to China Index Academy, from 2009 to 2012, the top 100 property management companies continuously increased their investment in automation technology. The investment in automation technology comprises investment at corporate level as well as investment at the level of the properties under their management. According to China Index Academy, property management with enhanced automation reduces labor intensity, enhances the standard of corporate management, effectively saves on labor costs, fosters the standardized operations of property management, improves service quality and increases property owners' satisfaction.

New opportunities from diversified services

According to China Index Academy, residents have increasingly demanded that their property management companies improve the quality of existing services and provide diversified services. Such demands, coupled with the increasing operational pressure driven by general cost increases for property management companies, have presented opportunities for these companies to adjust their traditional business model, consolidate their resources and transform their operations to achieve sustainable profitability growth.

In particular, property management companies have recognized that their biggest assets are the number of residents living on the properties they manage. These residents' demands represent the most direct potential business opportunities. Driven by the search for new revenue streams and in response to residents' demands, more property management companies are willing to adjust their business models and develop diversified services with a view to capitalizing on the residents' demands.

Diversified services not only enhance the overall profitability and address market demands, but also broaden the narrow business scope of traditional property management. Such services enhance the managerial capabilities, and build a foundation for long-term development. According to China Index Academy, the property management industry is also expected to keep pace with the development in information technology to support the development of the diversified services.

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Active pursuit of acquisition opportunities

Property management companies are subject to higher risks when organically expanding into a new market due to differences in regional cultures and market conditions, leading to higher expansion costs. According to China Index Academy, property management companies entered into new markets through mergers and acquisitions since 2012 to mitigate such risks.

Property management companies often use mergers and acquisitions as a means of efficient expansion into new markets to save costs and time, and increase their geographical market coverage. This expansion method also enhances resource utilization, leading to better market resource allocation, resource sharing and stronger business alliances. However, acquisitions may encounter certain difficulties, such as acquisition target's valuation, difficulties with integration of human resources and corporate cultures, and any legacy problems of the acquired company, all of which need to be addressed by the acquiring company. China Index Academy predicts that mergers and acquisitions will be one of the most important methods through which property management companies achieve growth.

Service Quality of the Top Property Management Companies

Continuously enhancing service quality through various means

Since 2011, local PRC governments have made the improvement of property management service quality an important policy goal. According to China Index Academy, property management companies generally respond to government policies actively by evaluating their internal potentials and improving their own service quality. More companies have also used outsourcing as a way to enhance service efficiency and service quality, according to China Index Academy.

According to China Index Academy, the top 100 property management companies generally implement their professional management by means of outsourcing, and their professional and centralized operations enhance service standard and lower costs. Outsourcing represents a common trend of development among the top 100 property management companies in recent years. The outsourcing of certain services to professional companies can bring more focused service and reduce costs. Outsourcing allows property management companies to focus on the objective assessment of service quality by acting as the platform between the outsourcing professional companies and consumers.

High general satisfaction rates leading to on-time payments of property management service fees

According to China Index Academy, the property management service fee payment rate reached 95.6% in 2012 among the top 100 property management companies. Property management companies strive to continuously elevate their service quality to satisfy residents' demands and improve their satisfaction rates, which would in turn lead to higher payment rate and create a win-win situation for the residents and the property management companies. According to China Index Academy, the contract renewal rate in 2012 reached approximately 99% among the top 100 property management companies. This also demonstrates residents' general satisfaction towards these companies.

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Competition

Competitive landscape

We compete with our major competitors in relation to a number of factors, including primarily scale, brand recognition, financial resources, price, service quality and other factors. There were approximately 20 property management companies managing over 20 million sq.m. of GFA as of December 31, 2012. The table below sets out the GFA managed by us and our key competitors:

<u>Company</u>	<u>GFA Managed (sq.m.)</u>
Company A	> 50 million
Company B	> 50 million
Company C	> 50 million
Colour Life Services Group Co., Limited	> 30 million
Company D	> 30 million
Company E	> 30 million
Company F	> 30 million

These companies generally provide property management services to residential and commercial properties. Besides property management services business, some of these companies are also engaged in the provision of some diversified services.

According to study conducted by China Index Academy in 2013, as of December 31, 2012, our Company was named China's Largest Community Services Operator in terms of the number of residential units managed. In addition, as of December 31, 2012, it was ranked second in terms of growth potential among the top 100 property management companies in 2013. It was also ranked 22nd in terms of overall strength among the top 100 property management companies in 2013.

Our engineering services compete with other property management companies as well as engineering companies providing similar services. Regarding our community leasing, sales and other services, we compete with different types of vendors directly offering the same products or services to our residents via our platform. For example, we compete with vendors and e-commerce businesses directly selling water, rice and edible oils; property agents for leasing services; and advertising companies for advertising services. Moreover, as local vendors advertise on our service platform, we face competition from other advertising venues, such as e-commerce businesses.

Barrier to entry

New entrants need to comply with the qualification criteria under the relevant PRC laws and regulations. See "Laws and Regulations relating to the Industry — Legal Supervision over the Property Management Sector in the PRC — The Qualification of Property Management Enterprises." We do not believe that there are high barriers to entry in this industry, which contributes to the intense competition.

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Colour Life's competitive strengths

Our Group focuses on implementing standardization, centralization and automation strategy. The traditional property management business model was property-based, causing inconsistencies in the service quality among different properties managed by the same company. Our business model ensures that we can centrally command and supervise the services provided by our on-site service teams and centralize certain services traditionally provided by them. We focus on implementing automation to reduce reliance on manual labor. In addition, we aim to continue to develop our community leasing, sales and other services platform to connect residents with local vendors. We have a comprehensive internal staff training system which we call the "Colour Life College." We have also established collaboration programs with professional schools by setting up courses and composing lecture materials with a view to developing new talents who can thrive under our business model and culture. For more information, see the sections entitled "Business — Our Competitive Strengths" and "Business — Our Business Strategies."

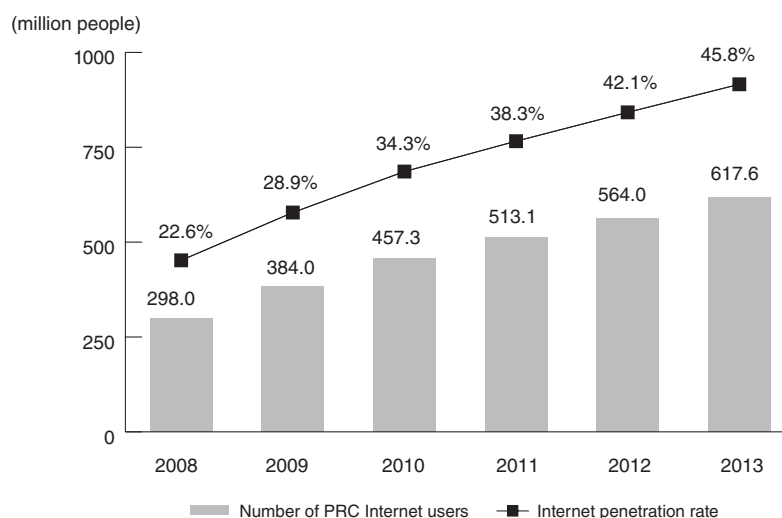
E-COMMERCE INDUSTRY IN THE PRC

iResearch Consulting Group and Its Methodology

Data below include information we purchased the right to use and quote from iResearch Consulting Group at a total cost of approximately RMB120,000, and other information quoted from publicly available sources. Established in 2002 and with more than 200 experts, iResearch Consulting Group is an organization focusing on in-depth research in China's Internet industry, including e-commerce. Since its establishment, iResearch Consulting Group has accumulated extensive experience in researching and monitoring the development of the Internet industry in the PRC. iResearch Consulting Group gathers its data through its online questionnaires, its interviews with industry experts and participants, publicly available information and its own research.

Internet Penetration and Usage in China

According to the China Internet Network Information Center, China has experienced notable growth in Internet penetration rate and the number of Internet users in recent years. The chart below sets forth the Internet penetrate rate and the number of Internet users in China from 2008 to 2013:

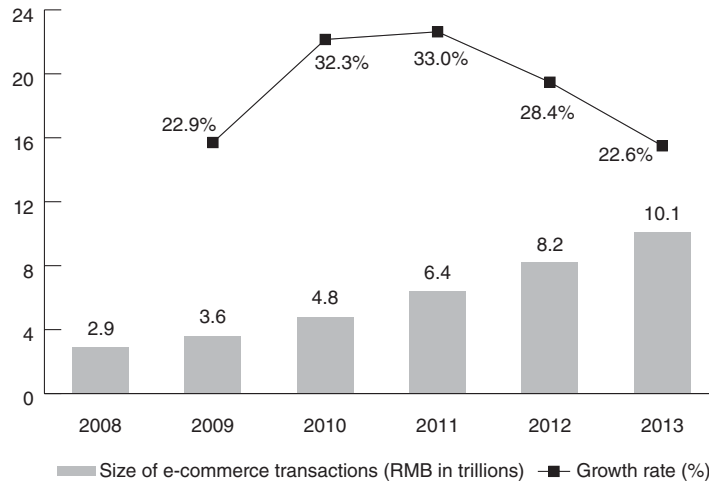


Source: China Internet Network Information Center

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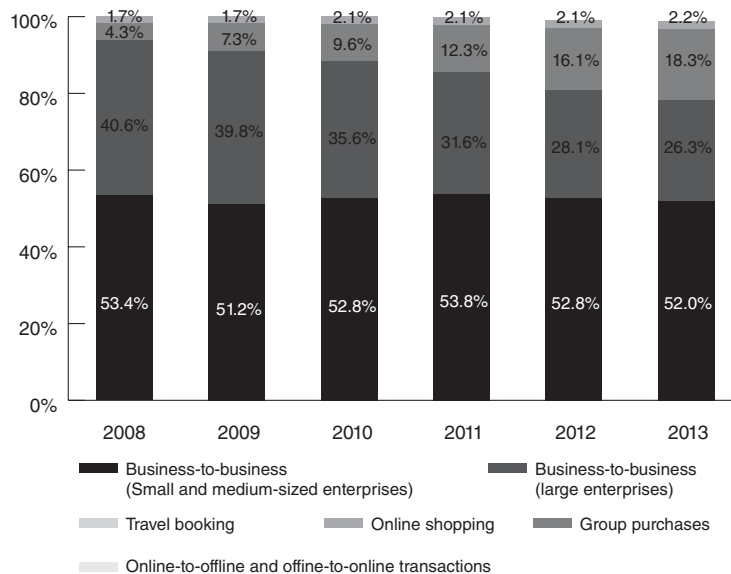
Size and Components of China's E-Commerce Transactions

In 2013, the value of e-commerce transactions in China amounted to RMB10.1 trillion, according to iResearch Consulting Group. iResearch Consulting Group concludes that the rapid growth is attributable to (i) policy support, as evidenced by the e-commerce “Twelve-Five” development planning published by the MIIT, and (ii) the increasing penetration of e-commerce among small and medium-sized enterprises. The chart below sets forth the growth of China's e-commerce transactions from 2008 to 2013:



Source: iResearch Consulting Group

The chart below sets forth the different components of China's e-commerce transactions from 2008 to 2013:



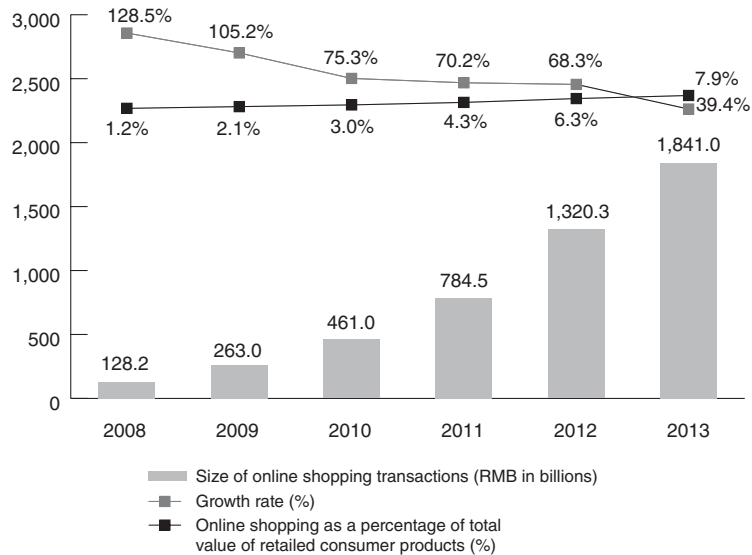
Source: iResearch Consulting Group

Note: Group purchases amounted to a negligible percentage in 2008, 2009 and 2010, and 0.2% in 2011. Starting from 2012, iResearch Consulting Group has modified the categorization of China's e-commerce transactions in its research. The new category of “online-to-offline and offline-to-online transactions” refers to transactions during which consumers, through the use of Internet and mobile Internet, purchase mainly services. Consumers can first purchase the services online and then enjoy such services offline. These also include transactions paid through barcode and acoustic payments. Online-to-offline and offline-to-online transactions amounted to 0.9% and 1.2% of e-commerce transactions in 2012 and 2013, respectively.

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Growth of Online Shopping in China

According to iResearch Consulting Group, the value of online shopping transactions in China exceeded RMB1.8 trillion in 2013, representing a year-over-year growth of 39.4% from 2012 and amounting to 7.9% of total value of retailed consumer products in 2013. iResearch Consulting Group attributes such increase primarily to the rise of business-to-customer e-commerce, which is more sizeable than their customer-to-customer competitors and offers better transparency and a more secure shopping environment for users. The chart below sets forth certain data of China's online shopping from 2008 to 2013:

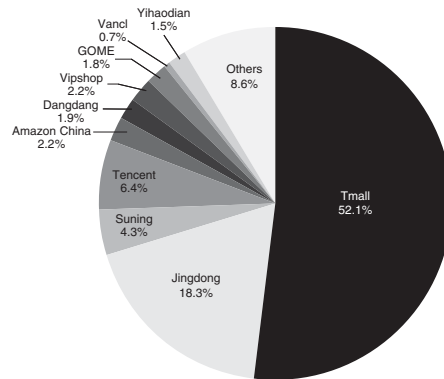


Source: iResearch Consulting Group

Note: Size of online shopping transactions represents the sum of gross merchandise value of e-commerce businesses which mainly sell real products and businesses which adopt cost-plus pricing, including the gross merchandise value of real and virtual products (excluding travel booking) in completed transactions, business (or value-added) tax and the gross merchandise value of uncompleted transactions (due to factors such as non-payment or refunds).

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The chart below sets forth the leading business-to-customer e-commerce businesses in China in 2013:



Source: *iResearch Consulting Group*

Note: Data include sales transacted online.

DIRECTORS' CONFIRMATION

As of the Latest Practicable Date, after taking reasonable care, our Directors confirm that there is no significant or material adverse change in the market information since the respective dates of the various data contained in this section which may qualify, contradict or have an impact on the information herein.