



合景泰富地產

KWG Property Holding Limited
合景泰富地產控股有限公司

(incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

(Stock Code 股份代號: 1813)

A photograph of a modern city skyline at sunset. The sky is a mix of orange, pink, and blue. Several tall, modern buildings with glass facades are visible, some of which are illuminated. The buildings are reflected in the water in the foreground.

Annual Report 2007
二零零七年年報

Contents

02	Corporate Information
03	Corporate Profile
04	Management Structure
05	Financial Highlights
06	Major Events for the Year
10	Letter to the Shareholders
12	Report of Chief Executive Officer
16	Management Discussion and Analysis
37	Biographical Details of Directors and Senior Management
41	Corporate Governance Report
48	Report of the Directors
56	Independent Auditors' Report
57	Consolidated Financial Statements
128	Financial Summary
130	Major Properties held by the Group

Corporate Information

Directors

Executive Directors

Mr. Kong Jian Min (*Chairman*)
Mr. Kong Jian Tao
Mr. Kong Jian Nan
Mr. Li Jian Ming
Mr. Tsui Kam Tim

Independent Non-executive Directors

Mr. Lee Ka Sze, Carmelo
Mr. Dai Feng
Mr. Tam Chun Fai

Qualified Accountant

Mr. Tsui Kam Tim

Company Secretary

Mr. Cheung Wing Leung

Compliance Advisor

Taifook Capital Limited

Authorised Representatives

Mr. Kong Jian Min
Mr. Cheung Wing Leung

Audit Committee

Mr. Tam Chun Fai (*Chairman*)
Mr. Lee Ka Sze, Carmelo
Mr. Dai Feng

Remuneration Committee

Mr. Kong Jian Min (*Chairman*)
Mr. Tam Chun Fai
Mr. Dai Feng

Nomination Committee

Mr. Kong Jian Min (*Chairman*)
Mr. Tam Chun Fai
Mr. Dai Feng

Registered Office

Cricket Square
Hutchins Drive
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Room 6407, 64th Floor
Central Plaza, 18 Harbour Road
Wanchai, Hong Kong

Principal Share Registrar

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Agricultural Bank of China
Bank of China Limited
China Construction Bank
Industrial and Commercial Bank of
China (Asia) Limited
Industrial and Commercial Bank of China Limited

Auditors

Ernst & Young

Legal Advisors

as to Hong Kong law:
Sidley Austin

as to Cayman Islands law:
Conyers Dill & Pearman

Website

www.kwgproperty.com

Corporate Profile

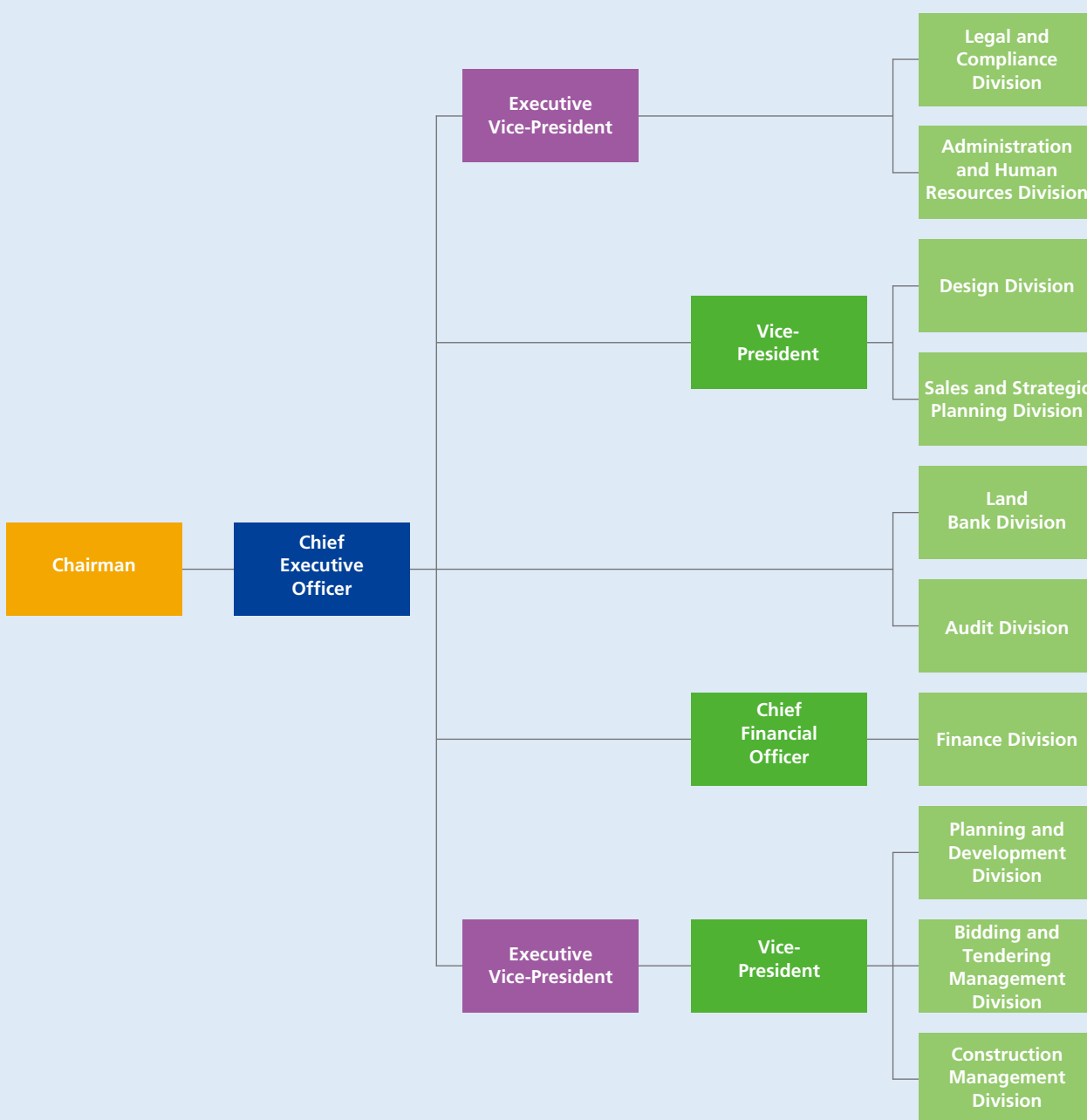
KWG Property Holding Limited (“KWG Property” or the “Company”) and its subsidiaries (the “Group”) are one of the leading large-scale property developers in Guangzhou City. Since Guangzhou Hejing Real Estate Development Limited was established in 1995, the Group has focused on quality property development that targeted at medium- to high-income groups. Over 12 years of development, KWG Property has diversified itself into various businesses, such as the development of residential properties, Grade A office buildings, villas, townhouses, hotels, serviced apartments, high-end shopping centers, assets management and property management, and extended its market reach from Guangzhou to Suzhou, Kunshan, Chengdu and Beijing to establish a strategic network of target areas in the People’s Republic of China (the “PRC”).

In order to provide a solid foundation for future growth, the Group has acquired sufficient land reserves for development in the next 4–5 years and is in the process of acquiring premium land with long-term development potential under sufficient cash flow, healthy financial position and stable operation.

In 2007, KWG Property was recognized by various media as one of the top ten enterprises with most valued brands in 2007, and was awarded the annual award for the best real estate enterprise and the “Jinding Prize” as the top ten listed PRC property developers.

Management Structure

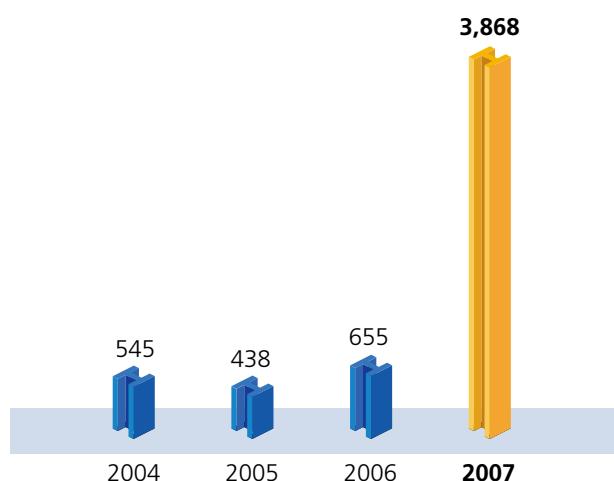
- emphasis on a cohesive team and collaboration
- clearly-defined division of labour and duties
- nurturing talents and providing internal promotion



Financial Highlights

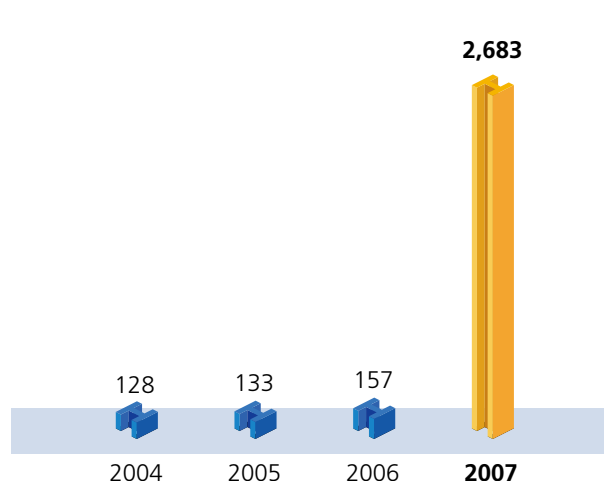
Revenue

(in RMB'million)



Profit Attributable to Equity Holders

(in RMB'million)



Year Ended 31st December

	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
RESULTS				
Revenue	3,868,136	654,632	437,748	544,962
Profit attributable to equity holders	2,683,055	157,156	132,995	128,403
Basic earnings per share attributable to equity holders (RMB cents)	120	9	N/A	N/A
ASSETS AND LIABILITIES				
Total assets	18,974,533	4,406,334	2,844,626	1,911,476
Total liabilities	9,702,187	3,419,307	2,235,351	1,535,196

Major Events for the Year



Milestone of the Group in 2007

January

The Group acquired 3 parcels of land in Suzhou through auction and officially entered the market of Suzhou, the Jiangsu Province.

March

The Group entered into a joint management agreement with Starwood Hotels & Resorts Worldwide, Inc. ("Starwood Group") with respect to W Guangzhou Hotel, Sheraton Resort Hotel and Four Points by Sheraton Hotel. KWG Property officially entered the hotel industry.

May

The Group entered into a cooperation agreement with Kingdee International Software Group Company Limited, the largest software provider in the PRC, for constructing the information system of the group to optimize the Company's internal management.



July

The Group was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), raising approximately HKD5,232,500,000.

The Group acquired 3 parcels of land in Chengdu High-Tech Industrial Development Zone through auction at approximately RMB3.6 billion and entered the market of Chengdu, the capital of Sichuan Province.

October

The Group entered into joint venture agreement with Aetos Capital Asia Funds for the strategic cooperation for the development of Chengdu project.

December

The Group launched the Guangzhou Lie De Village project and reached an agreement with Sun Hung Kai Properties Limited and Guangzhou R&F Properties Company Limited to jointly develop the project into a large-scale epochal commercial project in Guangzhou.

Major Awards in 2007

Project	Awards
	<ul style="list-style-type: none">Top 30 property brands in the PRC, 2007Top ten most valued brands in 20072007 Annual Award for the Best Real Estate Enterprise BrandTop ten most valued property brands in Guangzhou City in 2007Most popular property brands in the PRC in 2007"Jinding Prize" for one of the top ten PRC listed property developers
	<ul style="list-style-type: none">The Model Property Management 2007Guangzhou citizens' top ten favourite projects 2007"China Real Estate Golden Building Award 2007" – The top luxury residential property in the Central Business District ("CBD") (「金築獎」之最佳CBD花園豪宅)
	<ul style="list-style-type: none">The Best Villa 2007Environmental Excellence Community Award 2007Best-selling project 2007(暢銷樓盤)"China Real Estate Golden Building Award 2007" for the best living environment villas 2007 (「金築獎」之最佳生態宜居別墅)Best Planning and Design Development in Guangzhou 2007 (廣州最佳規劃設計典範樓盤)

Project	Awards
	"China Real Estate Golden Building Award 2007" – The best living environment boutique community (「金築獎」之最佳宜居精品社區)
	"China Real Estate Golden Building Award 2007" – The best living environment boutique community (「金築獎」之最佳宜居精品社區)

Letter to the Shareholders



Kong Jian Min
Chairman

Letter to the Shareholders

Since Guangzhou Hejing Real Estate Development Limited was established in 1995, the Group has operated for 12 years. The development of KWG Property was remarkable that it has developed itself from a single project developer to present scale of capable of handling 20 projects simultaneously. With the mission of “Building Quality for Infinite Excellence”, the Group is committed to develop medium to high-end properties and aims at building quality properties and landmarks. The Group pursues perfection and quality, and such pursuit helps cultivate the attitude of work prevailed in the Group and propel the Group to innovation and sustainable development.

In order to seek further room for development and enhance its competitiveness, KWG Property was listed on the Main Board of the Stock Exchange on

3 July 2007. Listing not only provides the Company with funds for further development, but also symbolizes the connection of the Group’s access to the international capital market and this marks a new era of the Group’s development.

Developing from a private-owned company to an international public company involves a change of nature and this means that we shall have more resources and a larger platform for development and yet we shall take more responsibilities. We should provide products and services of higher quality to satisfy the demand of quality housing from more regions and people. In return for the confidence of investors in us, we must put more effort to realize the values of the Group. As a listed company, we shall undertake higher social obligations and responsibilities and it is our target to add charm to our city and to create wealth for our society.

In 2007, the PRC's gross domestic product ("GDP") amounted to approximately RMB24,661.9 billion, representing an increase of 11.4% and this demonstrates the strong economic development of the PRC. Although the government has implemented macro-economic control policies and measures to safeguard and promote the sustainable healthy development of the property market, the PRC property market still enjoys a robust demand and growth potential with the rising income of residents, conceptual change in consumption and demand for higher living standard. We believe that KWG Property could continue to deliver a glorious results with our adherence to the our customer-oriented approach and our determination to harness our established edge in KWG Property's quality products and services as well as the effort and support from all shareholders and all colleagues.

I would like to express my gratitude to the shareholders, investors, business partners and clients for their trust in us, and also to the directors and all colleagues. KWG Property will, with our unswerving commitment, pioneer the development of property development market in the PRC in order to bring all of you with better results.

Kong Jian Min

Chairman and Executive Director

26 March 2008

Report of Chief Executive Officer

Dear shareholders,

Thanks for your unremitting support. I am honoured to share with you the first full year results of KWG Property since its listing on the Stock Exchange on 3 July 2007 and witness the remarkable results of KWG Property in 2007. This report includes the information in respect of the operating results, brand achievements and land banks as well as the development strategy and analysis with respect to the macro-economic control and change in policies and regulations of the industry.

Year 2007 was a milestone in the history of the Company's development. The Company was successfully listed on the Stock Exchange in July of this year after 12 years of tremendous efforts. Our efforts were recognized by investors through the oversubscription of 227 times in public offering, which definitely lifted our spirit. At the same time, the Company has transformed from a regional private-owned company to an international public company and obtained requisite funds for business expansion and development with strengthened management structure and equity structure after listing. The competitiveness of the Company was significantly enhanced, enabling the Company to capture better opportunities in the market.

1. Overview of the 2007 real estate market in the PRC

In 2007, the economy of the PRC continued to develop with a GDP growth of 11.4%. The corresponding rise in the living standard and purchasing power of consumers and the continuous growth in the residents' demand on housing had a positive impact on the

development of property. Supported by the huge demand and all the favourable factors, a significant growth in property market was recorded. In the first three quarters, the sale price of housing in 70 medium to large cities had an average cumulative increase of 6.7%, in which the price of newly built housing had an increase of 7.2%. The sales of commodity houses in Guangzhou, being the stronghold of the Group, was robust. Sales increased significantly by 49.9% while sales area increased significantly by 25.1% and such growth made Guangzhou to be the region with the most rapid growth in property market in China.

From the second half of 2007, the government implemented a series of macro-economic control measures with an aim to prevent economic growth from overheating and safeguard the continuously healthy development of the real estate market. These measures included raising the interest rate on loans, increasing the down payment of second apartments and cracking down on idle lands, in an attempt to control the market through all relevant spectra of the real estate industry. These measures had a regulating and stabilizing effect on the market. With autonomous consumption being more rational, the higher entry barrier and the growing trend in merger and acquisition caused the market to be more mature. An enterprise with disciplined operation and edges in sufficient capital, brand and management will acquire better market position.

Under such situation, the Group won both the market and public acclaim with its quality products. Revenue grew by 4.9 times in the whole year and gross profits grew by 9.2 times.

According to the forecast of Economic Bluebook 2008 issued by Chinese Academy of Social Science, a growth trend in the property market in the PRC would be observed, supported by factors which enable the sustainable development persisted, including continuous economic growth, increasing income of residents in cities and towns, acceleration of urbanization and residents' ascending demand for living standard. Meanwhile, year 2008 will be the year of Olympic Games and the holding of Olympic Games will serve as the momentum that will propel the economy of the PRC. As the property industry is a pillar for other industry, it remains optimistic to its future development.

2. Significant growth in operating results

KWG Property achieved brilliant results in 2007 under its development strategy and favorable market environment. Turnover and profit for the year increased by 490.9% and 1,606.8% respectively compared to the corresponding period of last year. Robust business growth gave clue on the development direction of the Group.

In 2007, the Group recorded an operating income of RMB3,868.1 million, in which income generated from property development, property investment and property management amounted to RMB3,846.8 million, RMB11.6

million and RMB9.7 million and accounted for 99.5%, 0.3% and 0.2% respectively, while profit for the year increased to RMB2,682.8 million, profit attributable to shareholders totaled to RMB2,683.1 million and earnings per share was RMB120 cents.

3. Rapidly expanding land bank

Quality and adequate land bank is indispensable for the development of real estate. To maintain the sustainable development, the Group obtained substantial land bank through auction, bidding and cooperation with other companies. Apart from steady development of its Guangzhou stronghold, the Group began to gradually expand to other potential cities such as Suzhou, Chengdu, Kunshan and Beijing as a complement to the Group's development strategy. In selecting sites for projects, the Group embraces a prudent and safe principle. It endeavoured to obtain abundant land resources at reasonable cost with preliminary studies and evaluation of the feasibility with respect to the planning on the market it operated as well as the professional experience of its development.

The gross floor area of the new land bank of the Group reached approximately 4.40 million sq.m. in total, and the area attributable to the Group was approximately 3.70 million sq.m.. These parcels of lands were situated at key locations with high potential of increment in value. As at 31 December 2007, the Group had a land bank of approximately 4.9 million sq.m., which is expected to be adequate for the steady and sustainable development of the Group in the next 4 to 5 years.

4. The impact of the brand is expanding ceaselessly

“Building Quality for Infinite Excellence”, being the core mission of the Group, has led the development direction of all operating activities of the Group. All products and services were well acclaimed and recognized in the market and the industry in 2007 and thus its impact and reputation of the brand name had been enhanced significantly.

KWG Property was one of the companies which received the most attention of consumers in 2007 and was awarded numerous prizes such as “Guangzhou residents’ top ten favourite projects 2007”, “The most popular property brand 2007”(“中國最具人氣房地產品牌2007”) and “Jinding Prize” – top ten listed property sector companies in the PRC. Brand name effect not only led to successful promotion, but also added value to the project and this allowed our products to be sold at a premium over the market price.

While maintaining organic growth, the Group vigorously commenced strategic cooperation with domestical and overseas well-known branded companies. The Group entered into cooperation agreement with Starwood Group to jointly establish W Guangzhou Hotel, Sheraton Resort Hotel and Four Points by Sheraton Hotel; the Group entered into strategic cooperation with Guangzhou R&F

Properties Company Limited and Sun Hung Kai Properties Limited, to develop the large commercial project of Guangzhou Pearl River New Town Lie De Village, with each party being able to fully manifest its strength.

The operations of the Group remained highly dynamic and maintained room for sustainable development through persistent brand name promotion, and its unremitting efforts in strengthening and enhancing the brand name impact, while exploring the intrinsic value of its brand name according to the development of the Group, and such initiative is completed with the synergy manifested under the cooperation with strong players. KWG Property is currently one of the famous property companies in Guangdong and even the whole country and it is popular among consumers.

5. Business outlook and development strategy

The Group has established a household brand name and edges in the construction of medium to high-end products are widely recognized by the industry. The Group would continue to deliver quality products under the leadership of passionate and professional management team. The Group will roll out its strategic plan of development in target areas with growth potential, covering Suzhou, Kunshan, Chengdu and Beijing in addition to Guangzhou. The Group will develop step across the threshold of developing commercial properties and set foot in the development of residential properties with a view to diversifying the opportunities for its development.

The Group expects that it would have an increase in the delivery of area and the scale of development in 2008.

Last but not least, I (on behalf of the Group) would like to express my sincere gratitude to all the dedicated colleagues, all shareholders, working partners and invaluable clients who show consideration and support to the Group.

Kong Jian Tao
Chief Executive Officer

26 March 2008

Management Discussion and Analysis

Financial review

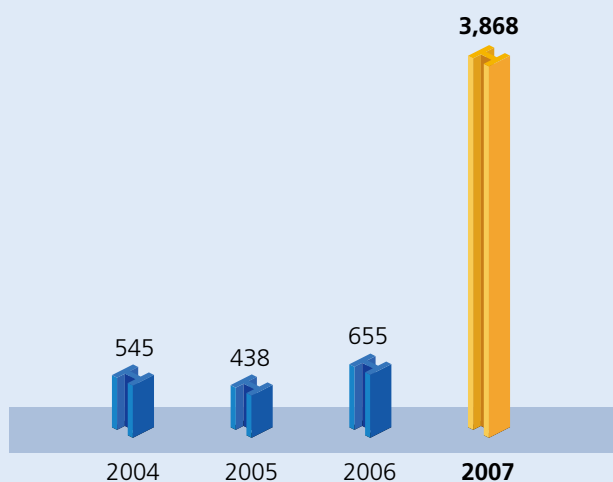
Revenue

Revenue of the Group comprises primarily the (i) gross proceeds, net of business tax, from the sale of properties, (ii) gross recurring revenue received and receivable from investment properties and (iii) property management fee income. The revenue is primarily generated from its three business segments: property development, property investment and property management.

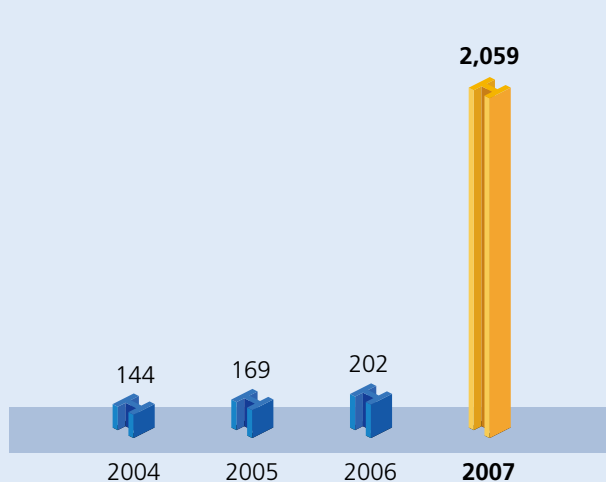
The revenue increased by 490.9% to approximately RMB3,868.1 million in 2007 from approximately RMB654.6 million in 2006, primarily attributable to the increase in sales of properties in 2007.

In 2007, the revenue generated from property development, property investment and property management are approximately RMB3,846.8 million, RMB11.6 million and RMB9.7 million, respectively.

Revenue (in RMB'million)

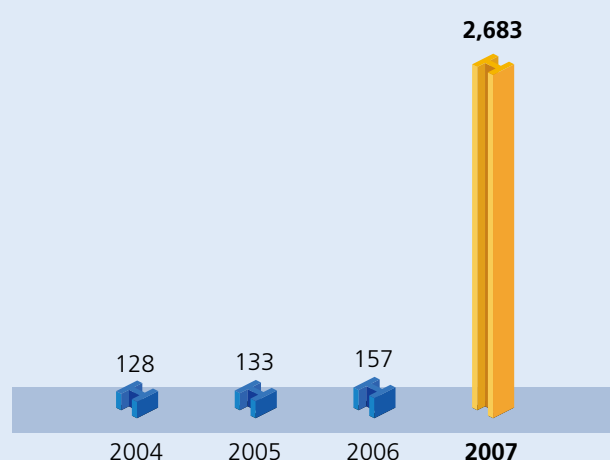


Gross Profit (in RMB'million)



Profit Attributable to Equity Holders

(in RMB'million)



Property development

Revenue generated from property development increased by 494.7% to approximately RMB3,846.8 million in 2007 from approximately RMB646.9 million in 2006, primarily attributable to a 173.1% increase in the total gross floor area (the "GFA") sold to 332,329 sq.m. in 2007 from 121,692 sq.m. in 2006 and a 117.7% increase in the recognised average selling price of property from RMB5,315.9 per sq.m. in 2006 to RMB11,575.3 per sq.m. in 2007. The significant increase in the recognised average selling price per sq.m. in 2007 over 2006 was principally due to the sale of certain high-end products with distinctive designs and high-quality living environment, like The Cosmos and Sky Ville projects, and an appreciation in the Guangzhou City property market.

Property investment

Revenue generated from the property investment increased by 241.2% to approximately RMB11.6 million in 2007 from approximately RMB3.4 million in 2006, primarily attributable to an increase in the number of rental properties leased. In July 2007, our major investment property, International Finance Place ("IFP"), was completed and operated to boost the rental income during the year.

Property management

Revenue generated from the property management increased by 125.6% to approximately RMB9.7 million in 2007 from approximately RMB4.3 million in 2006, primarily attributable to an increase in the number of properties under management. The completion and operation of IFP in July 2007 used to boost our property management fees income during the year.

Cost of sales

Cost of sales of the Group primarily represents the costs we incur directly for our property development activities. The principal components of cost of sales is cost of properties sold, which includes the direct cost of construction, costs of obtaining land use rights and capitalised borrowing costs on related borrowed funds during the period of construction.

Cost of sales increased by 299.9% to approximately RMB1,809.2 million in 2007 from approximately RMB452.4 million in 2006, primarily due to an overall increase in cost of properties sold following the increase in number of projects sold and the rising in average land and construction costs on development of higher-end and higher-quality properties.

Land costs per sq.m. increased from RMB435.5 in 2006 to RMB1,327.8 in 2007, principally due to the sale of The Cosmos project which was built in Pearl River New Town, a prime location of Guangzhou City. Construction cost per sq.m. increased from RMB3,059.6 in 2006 to RMB3,790.5 in 2007, primarily due to the use of higher-end fixtures and furnishings in the Group's luxury residential project, The Cosmos.

Gross profit

Gross profit of the Group increased by 918.2% to approximately RMB2,058.9 million in 2007 from approximately RMB202.2 million in 2006. The Group's gross profit margin increased to 53.2% in 2007 from 30.9% in 2006. The increase in gross profit margin was primarily due to an increase in the average selling price of property to RMB11,575.3 per sq.m. in 2007 from RMB5,315.9 per sq.m. in 2006, primarily due to an increase in higher-end and higher-quality properties the Group developed and an overall increase in average selling prices in the Guangzhou City property market.

Other income and gains

Other income and gains increased by 706.6% to approximately RMB206.5 million in 2007 from approximately RMB25.6 million in 2006, primarily attributable to the gains on the disposal of investment properties of RMB13.8 million, a subsidy income of RMB7.9 million, net exchange gains of RMB43.2 million and interest income of approximately RMB133.3 million mainly earned on the over-subscription monies from the Group's initial public offering (the "IPO").

Gains on the disposal of investment properties, primarily relating to the sale of retail shop units and carpark spaces at our La Bali, Color of United and City of Perfection projects. In 2007, the total GFA of investment properties sold was 4,991 sq.m., as compared to 4,453 sq.m. in 2006.

Selling and marketing costs

Selling and marketing costs of the Group increased by 100.6% to approximately RMB65.4 million in 2007 from approximately RMB32.6 million in 2006, which is primarily due to an increase of 101.8% in advertising expenses to approximately RMB44.8 million in 2007 from approximately RMB22.2 million in 2006, largely attributable to increased advertising for our IFP, The Cosmos, Ma'an Mountain No. 1, Linghui Chuangzhan Commercial Centre, Jinghu Garden and Sky Ville projects in 2007. Selling and marketing personnel salaries and benefits for 2007 increased to approximately RMB14.2 million from approximately RMB6.8 million in 2006, primarily as a result of an increased headcount achieved from higher sales volume in 2007.

Administrative expenses

Administrative expenses of the Group increased by 188.7% to approximately RMB148.1 million in 2007 from approximately RMB51.3 million in 2006, primarily attributable to an increased headcount to catch up with the rapid development of the Group during its listing and afterwards. In 2007, two offices were newly established in Suzhou and Chengdu. The increase of other tax and surcharges on sales of properties and the expenses in related to the listing of the Shares on the Stock Exchange also contributed to the increment in 2007.

Other operating expenses

Other operating expenses of the Group remained constant in both years. The principal factor behind other operating expenses related to operating costs of facilities at our residential development such as clubhouses and dining facilities.

Fair value gains on investment properties

Fair value gains on investment properties of the Group increased by 1,409.6% to approximately RMB2,288.5 million in 2007 from approximately RMB151.6 million in 2006, primarily due to the overall appreciation of properties in the Guangzhou City. Additionally, the total GFA attributable to our investment properties increased from 41,717 sq.m. for retail shop units and 737 carpark spaces at the end of 2006 to 56,309 sq.m. for office, 43,658 sq.m. for retail shop units and 1,126 carpark spaces at the end of 2007, primarily related to our IFP project. Such increase provided a significantly greater GFA base upon which fair value gains on investment property accrued.

Finance costs

Finance costs of the Group increased by 20.6% to approximately RMB18.7 million in 2007 from RMB15.5 million in 2006, mainly reflecting the interest payments on a new loan of HK\$600.0 million, which was fully repaid in September 2007.

Tax

Tax increased by 1,242.5% to approximately RMB1,637.8 million in 2007 from approximately RMB122.0 million in 2006, primarily due to an increase in profit attributable to the equity holders of the parent and provisions for LAT as a result of an increase in properties sold in 2007, and net off with the tax effect on the write-down of deferred tax assets and liabilities resulted from the reduction of the Enterprise Income Tax rate to 25% in 2008 from the present 33%.

Profit attributable to the equity holders of the parent

Profit attributable to the equity holders of the parent of the Group in 2007 increased by 1,606.8% to approximately RMB2,683.1 million from approximately RMB157.2 million in 2006. Such net profit margin increased to 69.4% in 2007 from 24.0% in 2006, as a result of the cumulative effect of the foregoing factors.

Liquidity, financial and capital resources

Cash position

As at 31 December 2007, the carrying amount of the Group's cash and bank deposits was approximately RMB3,436.0 million (31 December 2006: RMB1,006.3 million), representing an increase of 241.4% as compared to that as at 31 December 2006.

Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sales proceeds received at designated bank accounts as guarantee deposits for construction of the relevant properties. As at 31 December 2007, the carrying amount of the restricted cash was approximately RMB147.4 million (31 December 2006: RMB202.4 million).

Borrowings and charges on the Group's assets

The Group had an aggregated borrowings as at 31 December 2007 of approximately RMB2,720.5 million, of which approximately RMB275.1 million will be repayable within 1 year, approximately RMB2,254.5 million will be repayable between 2 and 5 years and approximately RMB190.9 million will be repayable over 5 years.

As at 31 December 2007, the Group's bank loans of approximately RMB1,763.5 million were secured by property, plant and equipment, land use rights, investment properties and completed properties held for sale of the Group with total carrying values of approximately RMB3,580.6 million.

The carrying amounts of all the Group's bank loans are denominated in RMB except for a secured loan balance of approximately HK\$851.9 million as at 31 December 2007 which was denominated in Hong Kong dollars. The Group's borrowings of approximately RMB1,922.8 million are charged at fixed interest rates as at 31 December 2007.

Gearing ratio

The gearing ratio is measured by the net borrowings (total borrowings net of cash and cash equivalent and restricted cash) over the total capital and reserves attributable to equity holders of the parent. As at 31 December 2007, the gearing ratio was -8.4%, i.e. the Group was in a net cash position (31 December 2006: 132.9%). As the ongoing new project development and the land replenishment will utilise the IPO proceeds and additional borrowings will be raised, if required, the gearing ratio is expected to be gradually increased to a reasonable level.

Risk of exchange rate fluctuation

The Group mainly operates in the PRC, so most of its revenues and expenses are measured in RMB. The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies, including the U.S. dollar and the Hong Kong dollar, has been based on rates set by the People's Bank of China.

During 2007, though the exchange rates of RMB against the U.S. dollar and the Hong Kong dollar kept on increasing, the Board expects that any fluctuation of RMB's exchange rate will not have material adverse effect on the operation of the Group.

Contingent liabilities

As at 31 December 2007, the Group had the following contingent liabilities relating to guarantees in respect of mortgage facilities for certain purchasers amounting to approximately RMB1,558.1 million (31 December 2006: RMB340.8 million). This represented the guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of property ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the Board considers that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

Use of proceeds from the initial public offering

The proceeds from the Company's issue of new shares at the time of its listing on the Hong Kong Stock Exchange on 3 July 2007, after deduction of related issuance expenses, amounted to approximately HK\$5,034.0 million. These proceeds were applied during the year ended 31 December 2007 with the remaining sum of approximately HK\$800 million being unutilised as follows:

- approximately HK\$600 million was used to repay the debt incurred in connection with the Reorganisation;
- approximately HK\$1,700 million was used to finance land costs; and
- approximately HK\$1,900 million was used to finance construction costs.

Employees and emolument policy

As at 31 December 2007, the Group has employed a total of 1,200 employees. The total staff costs incurred were approximately RMB66.7 million during the financial year ended 31 December 2007. The remuneration of employees was based on their performance, skills, knowledge, experience and market trend. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment commensurate with the pay level in the industry. In addition to basic salaries, employees may be offered with discretionary bonus and cash awards based on individual performance.

The Company adopted a share option scheme on 11 June 2007 under which the Company may grant options to eligible employees to subscribe for the shares of the Company. Particulars of the scheme are set out in the relevant sections of the annual report. As at 31 December 2007, no options had been granted, exercised or cancelled under the scheme.

Business review

Land bank

Year 2007 was the year in which the Group extended its development to other influent cities out of Guangzhou. In addition to maintain its edges of development in Guangdong region, the Group successfully entered into the market of Suzhou in Eastern China, Chengdu in South-western China, Lingshui City of Hainan in Southern China in 2007. Later, in January 2008, the Group further extended its development to Beijing the capital city of China. The scope of development is formed with its stronghold in Guangdong and footprints in the four major areas of the country.

The Group has been committed to acquire quality land in prime location through various channels for enhancing its capacity of sustainable development. In 2007, the Group acquired 11 parcels of premium land with GFA of approximately 3.9 million sq.m. by various means such as auction, bidding and listing for sales. Land bank has grown significantly, in which the area attributable to the Group was approximately 3.21 million sq.m..

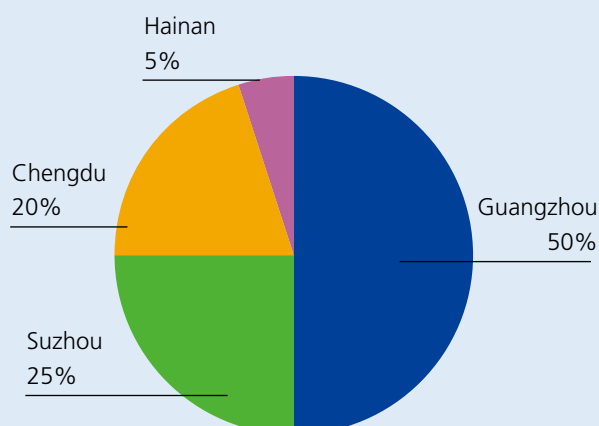
Overview of new land acquired in 2007

District	Project	Location	Total GFA ('000 m ²)	Interests attributable to the Group	Total GFA attributable to the Group ('000 m ²)
Guangzhou	Kehui Development Centre	Guangzhou Science City	300	100%	300
Suzhou	朗悦灣 (Weitang Project)	Suzhou	213	100%	213
Suzhou	Land lots B, C Project	Suzhou	788	100%	788
Guangzhou	Conghua Project	Conghua	280	100%	280
Chengdu	Chengdu land lot no. 3	South New District	48	65%	32
Chengdu	Chengdu land lots no. 9 and 10	South New District	618	65%	402
Guangzhou	Lie De Project	Pearl River New Town	568	33.33%	189
Chengdu	Chengdu land lots no. 6 and 7	Western High-Tech Zone	529	100%	529
Suzhou	QianDeng County Project	QianDeng County, Kunshan	146	100%	146
Hainan	Hainan Project	Lingshui County	266	100%	266
Guangzhou	J2-2 Project	Pearl River New Town	145	50%	73
Total:			3,901		3,218

On 31 January 2008, the Group, through auction, acquired quality land in Mapo County, Shunyi District, Beijing of the GFA of 500,000 sq.m. which is wholly owned by the Group.

Diversified land bank portfolio (as at 31 December 2007)

Total GFA attributable to the Group by geographical areas



Development and sales of properties

For the year under review, benefiting from the robust economic growth in Guangdong and the Group's reputation acquired with its determination to develop high quality projects, the Group recorded significant growth in sales of properties in 2007, hitting a record high in contracted sale/presale of approximately RMB5,000 million, representing a significant and substantial increase compared to 2006. As at 31 December 2007, the Group had 6 projects available for sale (lease) simultaneously and 5 projects were successfully delivered to owners for occupation. Total completed area was approximately 652,000 sq.m., in which saleable area was approximately 512,000 sq.m. and sales area sold was approximately 361,000 sq.m..

Completed area for the year ended 31 December 2007

Project	Interests attributable to the Group (%)	Total completed GFA ('000 m ²)	Saleable GFA ('000 m ²)	Sold/presold GFA ('000 m ²)
Linghui Chuangzhan Commercial Centre	100	46	41	40
Cosmos	100	197	145	96
Sky Ville (Phase I)	100	108	153	70
Ma'an Mountain No.1	100	74	62	49
Jinghu Garden (Phase I)	100	125	108	103
IFP	100	102	3	3
Total		652	512	361

Projects under development

As at 31 December 2007, the Group had 13 development projects under or planned for development, which are located in Guangzhou, Suzhou and Chengdu.

City (District)	Project	Type of Property	Total GFA ('000 m ²)	Saleable GFA ('000 m ²)	Expected pre-sales date	Expected completion date	Interests attributable to the Group (%)
Guangzhou	Sky Ville	Townhouses, apartments and hotel	470	466	2nd quarter of 2008	June and November 2008 (Phase II)	100%
Guangzhou	Hui Feng	Serviced apartments	100	100	1st quarter of 2008	November 2008	35%
Guangzhou	Jinghu Garden	Apartments	198	198	1st quarter of 2008	May 2008 (Phase II)	100%
Guangzhou	從化上城灣畔	Townhouses and apartments	280	280	2nd quarter of 2008	November 2008	100%
Guangzhou	Chungang Zhong Garden	Apartments	110	110	2nd quarter of 2008	October 2008	50%
Guangzhou	Kehui Development Centre	Office building and retail shop	300	300	3rd quarter of 2008	November 2008 (Phase I)	100%
Guangzhou	Ling Feng	Luxury apartments apartments and hotel	180	80	2nd quarter of 2008	September 2009	100%
Suzhou	朗悅灣	Townhouses and apartments	213	213	2nd quarter of 2008	November 2008 (Phase I)	100%
Suzhou	Land lot in Kunshan	Apartments	146	146	2nd quarter of 2008	June 2009	100%
Suzhou	Land lots B and C	Apartments, hotel and office	788	788	4th quarter of 2008 (Phase I)	June 2009 (Phase I)	100%
Chengdu	Land lot no. 3	Apartments	48	48	3rd quarter of 2008	2009	65%
Chengdu	Land lots no. 6 and 7	Apartments	529	507	3rd quarter of 2008	June 2009 (Phase I)	100%
Chengdu	Land lots no. 9 and 10	Serviced apartments, apartments, office building and shopping mall	618	487	4th quarter of 2008	November 2009 (Phase I)	65%
Total			3,980	3,723			



Investment properties and hotels

While developing properties for sales, the Group has also actively diversified its investment properties portfolio with a view to mitigating the affect of market fluctuations and policy changes. In order to provide more balanced revenue and stable income sources and cash flow, the Group aims at increasing the long term holding of the share of hotels, shop units, shopping centers and office buildings operations in the Group's total profit to approximately 20%.

During the year under review, turnover of the Group from its investment on office premises and the leasing of retail properties amounted to RMB11,639,000.

(1) Hotels

The Group is dedicated to the development of luxurious 5-star hotels in prime locations in urban areas while maintaining business and resort hotels. The Group's 3 multi-star hotels in Guangzhou are currently under construction, while 2 other high-end shopping centers and various multi-star hotels, which are located in Guangzhou, Chengdu and Suzhou, were in the stage of planning. To ensure the quality of our hotel services, the Group entered into a management agreement for cooperation with Starwood Group, an international renowned hotel management corporation, with respect to the Group's W Guangzhou Hotel, Sheraton Resort Hotel in Huadu and Four Points by Sheraton Hotel.



(2) *Investment properties completed and available for lease*

The Group also focuses on investing in high-end office premises in prime urban locations to secure stable long-term rental income. IFP in the CBD of Guangzhou City, which was invested by the Group, was completed and delivered to the tenants for occupation in July 2007. This office building was built with state-of-the-art technologies with two basements connected to the line no.3 and no. 5 of the Guangzhou subway, which allows higher accessibility to public transportation. To ensure the best tenants portfolio, the Group engaged Jones Lang LaSalle as our property lease agent to attract and select tenants and to ensure all the tenants are large-scale multi-national financial institutions. Currently, the average monthly rent of IFP is RMB210 per sq.m. As at 25 March 2008, the Group has entered into lease contract and letter of intent with the tenants representing 80% of the total GFA. Most of the tenants are PRC and foreign financial institutions and reputable multi-national enterprises.



Projects under development in 2008

Guangzhou Ling Feng/W Guangzhou Hotel – 5-star super luxurious hotel/Supreme luxurious apartments in CBD

Total Site Area ('000 m²)	23
GFA ('000 m²)	180
Interests attributable to the Group	100%
Type of property	Luxury apartments, apartments and hotel
Expected schedule of pre-sale	2nd quarter of 2008 (Residential area available for sale; hotel held for investment)



**Guangzhou Sky Ville/
Sheraton Resort Hotel-Large-scale scenery villa project in Guangzhou**

Total Site Area ('000 m²)	485
GFA ('000 m²)	470
Interests attributable to the Group	100%
Type of property	Townhouses, apartments and hotel
Expected schedule of pre-sale	2nd quarter of 2008



**Guangzhou Kehui Development Centre –
One of the major large-scale commercial projects in the center of Guangzhou**

Total Site Area ('000 m²)	150
GFA ('000 m²)	300
Interests attributable to the Group	100%
Type of property	Office building and retail shop
Expected schedule of pre-sale	3rd quarter of 2008



**Guangzhou Chungang Zhong Garden –
One of the major large-scale residential projects in Guangzhou**

Total Site Area ('000 m²)	45
GFA ('000 m²)	110
Interests attributable to the Group	50%
Type of property	Apartments
Expected schedule of pre-sale	2nd quarter of 2008



Guangzhou Jinghu Garden
One of the major large-scale residential projects in Guangzhou

Total Site Area ('000 m²)	52
GFA ('000 m²)	198
Interests attributable to the Group	100%
Type of property	Apartments
Expected schedule of pre-sale	1st quarter of 2008



**Guangzhou 從化上城灣畔 –
One of the major large-scale residential projects in Guangzhou**

Total Site Area ('000 m²)	228
GFA ('000 m²)	280
Interests attributable to the Group	100%
Type of property	Townhouses and apartments
Expected schedule of pre-sale	2nd quarter of 2008



**Guangzhou Hui Feng –
One of the major commercial and residential projects in CBD of Guangzhou**

Total Site Area ('000 m²)	11
GFA ('000 m²)	100
Interests attributable to the Group	35%
Type of property	Serviced apartments
Expected schedule of pre-sale	1st quarter of 2008



**Suzhou 朗悦灣 –
Large-scale composite residential project in Suzhou**

Total Site Area ('000 m²)	196
GFA ('000 m²)	213
Interests attributable to the Group	100%
Type of property	Townhouses and apartments
Expected schedule of pre-sale	2nd quarter of 2008

Business outlook

The Board is confident in the prospects of the Group. With the gradual progression of the nation-wide development, the Board believes the Group has the potential to be one of the largest all-around property developer in China.

Work with internationally renowned teams and develop trailblazing products

The Group will avail of its excellent brand and extensive experience and work with internationally renowned and leading teams. It will pursue the development of quality properties and design and develop trailblazing products while enhancing the value of its products for meeting the residential and investment needs of consumers.

Implement the development strategy of “Based in Guangzhou with Footprints in other regions”

The Group successfully acquired several plots of land in Suzhou, Chengdu and Hainan Island in 2007 and plots of land in Beijing in 2008 taking a step forward to the development by expanding to regions outside Guangdong province. In 2008, the Group will continue to focus on its development in Guangzhou and strengthen its position in the Guangzhou property market and expand its market share by harnessing its experience, knowledge and reputation in Guangzhou. Meanwhile, the Group will launch a couple of new projects in regions outside Guangdong province. The Group plans to launch 13 projects to the market in 2008, in which 7 of them are in Guangdong province, and 3 of them are in each of Suzhou and Chengdu.

Focus on developing properties for sale and strengthen diversified investment portfolio

The Group focuses on developing properties for sale while retaining quality properties for long-term investment purposes. The Group has an edge in developing residences which remain to be the focus of the Group. Besides, the Group will strengthen its development of commercial properties such as hotels, offices and shopping mall. A diversified mix of investment helps to maintain a balance of the investment portfolio and ensure the sustainable growth of the Group with stable income by reducing the risk of over-reliance on any particular sector of the property market.

Expand land bank appropriately under healthy financial position and stable operation

The Group's current land bank is sufficient for the sustainable development in the next 4 to 5 years. It will ensure that the appropriate acquisition of new lands will be conducted prudently under adequate cash flow, healthy financial position and stable operation. It takes into consideration of the project's return profile and future growth potential of the location. At the same time, the Group will continue to monitor and control our capital structure while continuing to utilize its ability of raising funds and maintaining reasonable gearing ratio.

Strengthen the construction of quality projects and control of marketing plan, complete projects and achieve sales target

As an established guideline, the Group will focus on properties development and ensure strict compliance of each development index while working with top-notch teams to build quality properties. At the same time, the Group will endeavour to implement the marketing plan during the development and sale period, and adjust the plan flexibly in response to market change. With a view to achieving the sales target on a timely basis, all the projects are proceeding smoothly and the status of the respective projects are set out below.

City	Project	Project Type	Total GFA ('000 m ²)	GFA Under Development ('000 m ²)	Expected Completion Time
Guangzhou	Sky Ville	Townhouses, apartments and hotel	470	260	June and November 2008 (Phase II)
	Hui Feng	Serviced apartments	100	100	November 2008
	Jinghu Garden	Apartments	198	60	May 2008 (Phase II)
	從化上城灣畔	Apartments and townhouses	280	280	November 2008
	Chungang Zhong Garden	Apartments	110	110	October 2008
	Kehui Development Centre	Office building and retail shop	300	150	November 2008 (Phase I)
	Ling Feng	Luxury apartments, apartments and hotel	180	180	September 2009
Suzhou	朗悦灣	Townhouses and apartments	213	213	November 2008 (Phase I)
	Project Kunshan	Apartments	146	146	June 2009
	Project B & C	Apartments, hotel and office	788	200	June 2009 (Phase I)
Chengdu	Project Plot 3	Apartments	48	48	2009
	Project Plots 6,7	Apartments	529	250	June 2009 (Phase I)
	Project Plots 9,10	Apartments, serviced apartments, office building and shopping mall	618	250	November 2009 (Phase I)

Biographical Details of Directors and Senior Management

Directors

Executive Directors

Kong Jian Min, aged 40, is the founder of the Group. He is an executive director and the Chairman of the Company and is primarily responsible for the formulation of our development strategies, as well as supervising our project planning, business and operation management. Mr. Kong graduated from the Jinan University of Guangzhou majoring in computer science in 1989. Mr. Kong has over 12 years of experience in property development and investment. Prior to the founding of the Group, Mr. Kong worked as a credit officer of the Baiyun Road Sub-Branch of the Guangzhou Branch of Industrial and Commercial Bank of China. Mr. Kong is a brother of Kong Jian Tao and Kong Jian Nan.

Kong Jian Tao, aged 37, is an executive director and the Chief Executive Officer of the Company. He is responsible for the overall operation of the Group's projects. He has over 12 years of experience in property development and has been a director of the Group since 1995.

Kong Jian Nan, aged 42, is an executive director and executive vice president of the Company. He is responsible for coordinating and managing the human resource, administrative management, IT management and legal affairs of the Group. He is a graduate of China Central Radio and TV University. He joined the Group in 1999.

Li Jian Ming, aged 41, is an executive director and a vice president of the Company. He is primarily responsible for engineering management of the Group, including quality, progress, technical supervision and budget and final accounts management. Mr. Li graduated from the South China University of Technology majoring in industrial and civil construction. Prior to joining the Group, Mr. Li was an engineer of the construction department of a company in Gungzhou. Mr. Li was appointed as an executive director of the Company in June 2007.

Tsui Kam Tim, aged 39, is an executive director of the Company. He is also the Chief Financial Officer and the Qualified Accountant of the Company. He is primarily responsible for the financial management and supervision of financial reporting, corporate finance, treasury, tax and other related finance matters. Mr. Tsui graduated from Australia National University with a bachelor degree in Commerce and he is a professional member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he was a senior manager of an international firm of certified public accountants. Mr. Tsui joined the Company in January 2007 as the Chief Financial Officer and was appointed as an executive director of the Company in November 2007.

Independent Non-Executive Directors

Lee Ka Sze, Carmelo, aged 47, is an independent non-executive director and a member of audit committee. Mr. Lee received a bachelor degree in Laws and the Postgraduate Certificate in Laws from The University of Hong Kong. He is qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory and has been a partner of Messrs. Woo, Kwan, Lee & Lo since 1989. Mr. Lee is a non-executive director of Y.T. Realty Group Limited, The Cross-Harbour (Holdings) Limited, China Pharmaceutical Group Limited, Hopewell Holdings Limited, Safety Godown Limited, Taifook Securities Group Limited, Termbray Industries International (Holdings) Limited and Yugang International Limited, all of which are listed on the Stock Exchange. Mr. Lee was a member of the Main Board Listing Committee of the Stock Exchange from 2000 to 2003. He is also an adjudicator of the Registration of Persons Tribunal and the chairman of the Transport Tribunal of the Hong Kong Government. Mr. Lee was appointed as our independent non-executive director in June 2007.

Dai Feng, aged 66, is an independent non-executive director, a member of audit committee and a member of remuneration committee of the Company. Mr. Dai is a member of the Expert Committee on Urban Planning of the Ministry of Construction (國家建設部城市規劃專家委員會), a member of the Expert Committee on Living Environment of the China Research Association on Property and Residence (中國房地產及住宅研究會人居環境委員會), and member of various other professional organizations on urban planning and research in the PRC. He is a part-time professor of Central China University of Technology (華中科技大學) and Wuhan University of Technology (武漢理工大學) and is also a fellow of the Euroasian Academy of Sciences. Mr. Dai has over 40 years of experience in property development, specializing in urban planning, design and related information technology. Since 1985, he has won various prizes in urban planning and application of advanced technology. His achievements in applying advanced technology in urban planning were recognized by the Ministry of Construction of China. Mr. Dai is an independent non-executive Director of Guangzhou R&F Properties Co. Ltd. which is listed on the Main Board of the Stock Exchange, and is also an independent non-executive Director of Poly Real Estate Group Co. Ltd. and Guangzhou Donghua Enterprises Co. Ltd., both of which are listed on the Shanghai Stock Exchange. Mr. Dai was appointed as our independent non-executive director in June 2007.

Tam Chun Fai, aged 45, is an independent non-executive director, chairman of audit committee and a member of remuneration committee of the Company. Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor degree in accountancy. He is a member of the Hong Kong Institute of Certified Public Accountants and is also a member of Chartered Financial Analyst. Mr. Tam has over 20 years of experience in auditing and corporate advisory services as well as financial management and compliance work. He is an executive director, the financial controller and company secretary of Beijing Enterprises Holdings Limited, a company listed on the Main Board of the Stock Exchange and is an independent non-executive director of Hi Sun Technology (China) Limited, a company listed on the Main Board of the Stock Exchange. Mr. Tam was appointed as our independent non-executive director in June 2007.

Senior Management

Liang Zhong Wei, aged 51, is a vice president of the Group. He is primarily responsible for the finance management of the Group. Mr. Liang graduated from the Jinan University of Guangzhou with a bachelor degree in finance. He has extensive experience in finance and capital management. Mr. Liang joined the Group in 2004. Prior to joining the Group, Mr. Liang was the branch manager of the Industrial and Commercial Bank of China, Guangzhou Branch, Guangzhou High and New Technology Development Zone Sub-Branch.

He Wei Zhi, aged 40, is a vice president of the Group. Mr. He graduated from Guangzhou University majoring in hotel management. He joined the Group in 1995 and held the positions of manager and deputy general manager of the sales department. Since his joining of the Group, he has been responsible for project planning, design and sales planning work of the Group.

Luo Qing, aged 43, is a deputy general manager of the Group. He joined the Group in 2001 and held positions of project manager and project superintendent. Mr. Luo is primarily responsible for engineering management, including quality control and interior decoration management of the projects of the Group. Mr. Luo graduated from the South China University of Technology with a bachelor degree in building engineering and is a registered supervision engineer. He is experienced in project management. Before joining the Group, Mr. Luo was a general manager of a construction supervision company.

Chen Jie Ping, aged 35, is a general manager of the Sales and Strategic Planning Division of the Group. He is responsible for sales planning of the projects of the Group. Mr. Chen joined the Group in 2003. Prior to joining the Group, he was a deputy general manager of a property agent and is experienced in the sale of properties in the PRC.

Zhang Wen Li, aged 40, is the general manager of the property management subsidiaries of the Group. She is responsible for the management and operation of the property management companies of the Group. Ms. Zhang graduated from the Beijing University majoring in law and she is an intermediate level economist of property and a senior property management professional. She joined the Group in 2004. Before joining the Group, she was the general manager of several well-known property management companies in Guangzhou City.

Biographical Details of Directors and Senior Management

Wu Yue Zhao, aged 34, is a registered planning professional and a general manager of the Design Division of the Group. He is responsible for managing the designs of the projects of the Group, including project planning, design and the provision of technical guidance. Mr. Wu graduated from the South China University of Technology with a master degree in construction. He joined the Group in 2006. Before joining the Group, he was the manager of the design department of several well-known property developers.

Zhou Yong Zi, aged 31, is the general manager of the Legal and Compliance Division of the Group. He is primarily responsible for the legal and compliance functions of the Group. Mr. Zhou graduated from the Eastern China College of Politics and Law with a bachelor degree in law and practiced as a lawyer and was consultant in several medium to large size enterprises before joining the Group. He joined the Group in November 2006.

Corporate Governance Report

Commitment to Corporate Governance

The Group believes that sound and good corporate governance practices are not only key elements in enhancing investor confidence and the Company's accountability and transparency but also important to the Company's long-term success. The Group, therefore, strives to attain and maintain effective corporate governance practices and procedures. The Company complied with the code provisions in the Code on Corporate Governance Practices (the "Code Provision") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2007. In conducting its businesses, the Group strictly complied with all applicable laws, rules and regulations. The Group is committed to continuously improving its corporate governance practices and endeavours to ensure its businesses to be conducted in accordance with all applicable laws, rules and regulations.

Board of Directors

The Board is in charge of the task of maximizing the financial performance of the Company and making decisions in the best interest of the Company. The Board is responsible for formulating business policies and strategies, directing and supervising management of the Group, adopting and monitoring internal business and management control, approving and monitoring annual budgets and business plans, reviewing operational and financial performance, considering dividend policy, reviewing and monitoring the Company's systems of financial control and risk management. The Board has delegated the day-to-day management, administration and operation of the Group and implementation and execution of Board policies and strategies to the executive directors and management of the Company.

As at 31 December 2007, the Board consists of eight members, including the Chairman, Mr. Kong Jian Min, four executive directors, Mr. Kong Jian Tao, Mr. Kong Jian Nan, Mr. Li Jian Ming and Mr. Tsui Kam Tim, and three independent non-executive directors, Mr. Lee Ka Sze, Carmelo, Mr. Dai Fend and Mr. Tam Chun Fai. Biographical details of the Directors are set out on pages 37 to 38. Messrs. Kong Jian Min, Kong Jian Tao and Kong Jian Nan are brothers. Save as disclosed, there is no family or other material relationship among members of the Board.

All executive directors have entered into service contracts with the Company for a specific term of three years. Under the articles of association of the Company (the "Articles of Association"), the Board is empowered to appointed any person as a director to fill the casual vacancy on or as an additional director of the Board. The Board considers a candidate's experience, skill and knowledge and competency and ability to fulfill duty of care and diligence and fiduciary duty and/ or recommendation by the Nomination Committee (if any).

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive directors, one of whom has appropriate professional qualifications in accounting and financial management. All independent non-executive directors have confirmed their independence of the Company and the Company considers them to be independent in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. All independent non-executive directors have entered into letters of appointment with the Company for a specific term of one year. One third of the directors are subject to retirement from office by rotation and re-election at the annual general meeting once every three years in accordance with the Articles of Association.

All directors, including independent non-executive directors, have given sufficient time and effort to the affairs of the Group. Independent non-executive directors have provided the Board with their diversified expertise, experience and professional advice. The Board believes that the ratio between executive directors and independent non-executive directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders and the Group. The Board also believes that the views and participation of the independent non-executive directors in the Board and committee meetings provides independent judgment on the issues relating to strategy, performance, conflict of interest and management process to ensure that the interests of all shareholders are considered and safeguarded.

All directors have full and timely access to all relevant information in relation to the Group's businesses and affairs as well as unrestricted access to the advice and services of the company secretary, who is responsible for providing directors with Board papers and related materials. The directors may seek independent professional advice at the Company's expenses in carrying out their duties and responsibilities.

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against directors arising out of corporate activities.

During the period from 3 July 2007 (the date of listing the Company) to 31 December 2007, the Board held two meetings. At these Board meetings, directors discussed and exchanged their views on significant issues and general operations of the Group, formulated business policies and strategies, reviewed the financial performance and internal control system, including financial, operational and compliance controls and risk management systems, and reviewed and approved the interim results.

Attendance of the individual directors at the Board meetings is set out as follows:–

Directors	Meetings Attended/Total
<i>Executive Directors</i>	
Kong Jian Min (<i>Chairman</i>)	2/2
Kong Jian Tao	2/2
Kong Jian Nan	2/2
Li Jian Ming	1/2
Tsui Kam Tim ^{Note 1}	0/2
<i>Independent Non-Executive Directors</i>	
Lee Ka Sze, Carmelo	1/2
Dai Feng	0/2
Tam Chun Fai	1/2

At least 14 days notice prior to the date of meeting is given to all directors and an agenda together with board papers are sent to all directors no less than three days before the date of meeting. All directors are given opportunity to include in the agenda any other matter that they would like to discuss in the meeting. With respect to the board committee meeting, reasonable prior notice is given to all committee members. All directors and committee members of the Board committee are urged to attend the board meeting and board committee meeting in person. For the directors and committee members, who are unable to attend the meeting, participation through electronic means will be arranged and available.

Should a director have a potential conflict of interest in a matter being considered in the board meeting, he will be abstained from voting. Independent Non-executive directors with no conflict of interest will be present at meetings dealing with such conflict of interest issues.

The company secretary assists the Chairman in preparation of the agenda for the board meeting and board committee meeting and ensures that all applicable rules and regulations regarding the board meeting are followed. He also prepares and keeps detailed minutes of each board meeting and board committee meeting. Within a reasonable time after each meeting, the draft minutes are circulated to all directors for comment and the final and approved version of minutes is sent to all directors for their records. Board committees, including the audit committee, nomination committee and remuneration committee, all follow the applicable principles, practices and procedures used in Board meetings.

Note 1 Mr. Tsui Kam Tim was appointed as an executive director on 7 November 2007.

Chairman and Chief Executive Officer

Mr. Kong Jian Min is the Chairman of the Board and Mr. Kong Jian Tao is the Chief Executive Officer of the Company. As disclosed, Messrs. Kong Jian Min and Kong Jian Tao are brothers. Despite their relationship, the divisions of responsibilities between the Chairman of the Board and the Chief Executive Officer are clearly defined to ensure a balance of power and authority and to reinforce their independence and accountability.

Mr. Kong Jian Min, being the Chairman, is responsible for providing leadership to the Board and ensuring that the Board functions effectively; that directors receive in timely manner adequate information which is complete and reliable and that all directors are properly briefed on issues arising at Board meetings. The Chairman also encourages directors to participate actively in and to make a full contribution to the Board so that the Board acts in the best interest of the Company.

Mr. Kong Jian Tao, being the Chief Executive Officer, is responsible for the daily operations of the Company, execution of business policies, strategies, objectives and plans as formulated and adopted by the Board and leading the management of Company.

Compliance with Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for directors in their dealings in the Company's securities. Having made specific enquiries with directors, all directors confirmed that they have fully complied with the Model Code during the financial year ended 31 December 2007.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparation of the financial statements for the financial year ended 31 December 2007 which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards.

Board Committees

The Board has established three board committees, namely audit committee, remuneration committee and nomination committee, to oversee the particular aspect of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties.

Audit Committee and Accountability

In compliance with Rule 3.21 of the Listing Rules, an audit committee was established on 11 June 2006 with written terms of reference in accordance with the Code on Corporate Governance Practices as set out in appendix 14 to the Listing Rules. The audit committee comprises three members who are independent non-executive directors, namely Mr. Tam Chun Fai (the chairman), Mr. Lee Ka Sze Carmelo and Mr. Dai Feng. The audit committee reports to the Board and is delegated by the Board to assess matters related to the financial statements of accounts. Under its terms of reference, the audit committee is required to perform, amongst the others, the following duties:–

- making recommendation to the Board on appointment, re-appointment and removal of external auditor of the Group and considering the remuneration and terms of engagement of that external auditor;
- reviewing and monitoring the external auditor's independence and effectiveness of the audit process in accordance with applicable standard;
- reviewing the Group's financial controls, internal control and risk management system;
- reviewing the Group's financial and accounting policies and practices;
- ensuring that management has fulfilled its duty to establish and maintain an effective internal control and risk management systems;
- ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedures approved by the Board;
- reviewing and monitoring the integrity of the Groups' financial statements and annual reports and accounts and half-year report.

Since the Company's listing on 3 July 2007, the audit committee held one meeting. The audit committee has reviewed the accounting policies and practices adopted by the Group and the interim results of the Group as well as assessed the effectiveness of the Group's internal control and risk management system. The audit committee reported that there was no material uncertainty that cast doubt on the Company's going concern ability.

Attendance of individual members of the audit committee at the meeting for the year ended 31 December 2007 is set out as follows:–

Committee Members	Meetings Attended/ Total
Lee Ka Sze, Carmelo	1/1
Dai Feng	0/1
Tam Chun Fai	1/1

For the year ended 31 December 2007, the external auditors' remuneration in respect of audit services provided to the Group amounted to approximately RMB3,468,000 and fees for non-audit services amounted to an aggregate amount of RMB300,000 including RMB150,000 being service charge for the review of financial information and RMB150,000 being service charge for performance of agreed upon procedures.

Remuneration Committee

The remuneration committee was established on 11 June 2007 with written terms of reference. The remuneration committee is chaired by Mr. Kong Jian Min with two independent non-executive directors, namely Mr. Tam Chun Fai and Mr. Dai Feng, as members.

The principal responsibilities of the remuneration committee are to formulate and recommend remuneration policy to the Board, to determine the remuneration of executive directors and members of senior management, to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time and to make recommendation on other remuneration related issues. The Board expects the remuneration committee to exercise independent judgment and ensures that executive directors do not participate in the determination of their own remuneration.

The remuneration committee did not hold committee meeting for the year ended 31 December 2007 because the Company just listed on 3 July 2007. The remuneration committee considers that it is not necessary to review the remuneration policy to the Board and members of senior management in the first year after listing.

Nomination Committee

The nomination committee was established on 11 June 2007. The chairman is Mr. Kong Jian Min, an executive director, and the two other members are Mr. Tam Chun Fai and Mr. Dai Feng, both of them are independent non-executive directors.

The nomination committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, appointment, re-appointment of directors and Board succession and assessing the independence of independent non-executive directors.

During the period from 3 July 2007 (the date of the Company's listing) to 31 December 2007, there was no meeting held by the nomination committee. The nomination committee considers that it is not necessary to review the composition of the Board during the first year of listing.

Internal Control

The Board is responsible for maintaining sound and effective internal control system in order to safeguard the Group's assets and shareholders' interests and reviewing and monitoring the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that internal control and risk management systems in place are adequate.

The Group's internal control system includes a well-established organizational structure with clearly defined lines of responsibility and authority. The day-to-day departmental operations is entrusted to the individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the parameter of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Board from time to time. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis.

The Board conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management for the year ended 31 December 2007. The assessment was made by discussions with the management of the Company, its external and internal auditors and the review performed by the audit committee. The Board believes that the existing internal control system is adequate and effective.

Shareholder Relations

The Company has adopted a policy of disclosing clear and relevant information to shareholders through publication of announcements, notices, circulars, interim and final reports in a timely manner. To enhance the Company's transparency, other information about the Company is published at the Company's website at <http://www.kwgproperty.com>. In addition to publication of information, the annual general meeting of the Company provides a forum for communication between shareholders and directors. The Chairman of the Board personally chairs the annual general meeting to ensure shareholders' views are communicated to the Board. In addition to the Chairman, the chairman of the Board committees, or in their absence, other members of the respective committees, are available to answer any queries that shareholders may have. The Chairman will propose separate resolutions for each issue to be considered at the annual general meeting.

The annual general meeting proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices and shareholders' rights are preserved. Notice of annual general meeting is delivered to all shareholders at least 21 days prior to the date of the meeting, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. At the beginning of the meeting, the procedures for demanding and conducting a poll will be explained by the Chairman. Vote results are posted on the Company's website.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 57 to 127.

The directors recommend the payment of a final dividend of RMB15 cents per ordinary share in respect of the year to shareholders on the register of members on 6 June 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

Use of proceeds from the Company's initial public offering

The proceeds from the Company's issue of new shares at the time of its listing on the Hong Kong Stock Exchange in July 2007, after deduction of related issuance expenses, amounted to approximately HK\$5,034 million. These proceeds were applied during the year ended 31 December 2007 with the remaining sum of approximately HK\$800 million being unutilised, as follows:

- approximately HK\$600 million was used to repay the debt incurred in connection with the reorganisation undergone by the Company;
- approximately HK\$1,700 million was used to finance land costs; and
- approximately HK\$1,900 million was used to finance construction costs.

Summary financial information

A financial summary of the Group is set out on pages 128 and 129. This summary does not form part of the audited financial statements.

Property, plant and equipment and investment properties

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's major investment properties are set out on page 130.

Properties under development

Details of movements in the properties under development of the Group during the year are set out in note 20 to the financial statements. Further details of the Group's major properties under development are set out on page 130.

Completed properties held for sale

Details of movements in the completed properties held for sale of the Group during the year are set out in note 21 to the financial statements. Further details of the Group's major completed properties held for sale are set out on page 130.

Share capital and share options

Details of movements in the Company's share capital during the year are set out in note 32 to the financial statements. No share options were granted since the adoption on 11 June 2007, a summary of the principal terms of the Share Option Scheme is set out in note 33 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with article 146 of the articles of association of the Company, amounted to approximately RMB5,878 million, of which approximately RMB389 million has been proposed as a final dividend for the year.

Charitable contributions

During the year, the Group made charitable contributions totalling RMB5,730,000 (2006: RMB1,990,000).

Major customers and suppliers

For the year ended 31 December 2007, sales to the Group's five largest customers accounted for less than 30% of the Group's revenue in the year.

In the year under review, payment attributable to the Group's largest contractor and five largest contractors amounted to approximately 22.6% and 47.7% respectively, of the total payment under construction contracts. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 11.7% and 35.3%, respectively, of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest contractors and suppliers.

Directors

The directors of the Company during the year were:

Executive directors:

Mr. Kong Jian Min

Mr. Kong Jian Tao

Mr. Kong Jian Nan

Mr. Li Jian Ming

(appointed on 11 June 2007)

Mr. Tsui Kam Tim

(appointed on 7 November 2007)

Independent non-executive directors:

Mr. Lee Ka Sze, Carmelo

(appointed on 11 June 2007)

Mr. Dai Feng

(appointed on 11 June 2007)

Mr. Tam Chun Fai

(appointed on 11 June 2007)

In accordance with articles 86(3), 87(1) and 87(2) of the Company's articles of association, Messrs. Li Jian Ming, Kong Jian Nan and Tsui Kam Tim will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for period of one year.

The Company has received annual confirmations of independence from Messrs. Lee Ka Sze, Carmelo, Dai Feng and Tam Chun Fai, and as at the date of this report still considers them to be independent.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 37 to 40 of the annual report.

Directors' service contracts

Each of Messrs. Kong Jian Min, Kong Jian Tao, Kong Jian Nan and Li Jian Min has a service contract with the Company for a term of three years which commenced on 3 July 2007 and Mr. Tsui Kam Tim has a service contract with the Company for a term of three years commencing on 7 November 2007 and each of these service contracts is subject to termination by either party giving not less than three months' written notice.

Each of the independent non-executive directors has entered into a letter of appointment with the Company for a term of one year which commenced on 3 July 2007 and is subject to termination by either party giving not less than three months' written notice.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' remuneration

The directors' emoluments are subject to the recommendations of the remuneration committee and the board's approval. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Directors' and chief executive's interests and short positions in shares and underlying shares

At 31 December 2007, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of shares held through controlled corporation	Percentage of the Company's issued share capital
Mr. Kong Jian Min	(a) & (b)	1,687,500,000	65.1
Mr. Kong Jian Tao	(a) & (b)	1,687,500,000	65.1
Mr. Kong Jian Nan	(a) & (b)	1,687,500,000	65.1

Notes :

- a. Messrs. Kong Jian Min, Kong Jian Tao and Kong Jian Nan hold 76.5%, of issued share capital of Plus Earn Consultants Limited ("Plus Earn"), 15% of issued capital of Plus Earn and 8.5% of issued capital of Plus Earn respectively. Therefore, Messrs. Kong Jian Min, Kong Jian Tao and Kong Jian Nan (collectively the "Kong Family") are deemed to be interested in 1,612,500,000 shares in the Company through the interest in Plus Earn.
- b. Messrs. Kong Jian Min, Kong Jian Tao and Kong Jian Nan hold 76.5%, of issued share capital of Right Rich Consultants Limited ("Right Rich"), 15% of issued capital of Right Rich and 8.5% of issued capital of Right Rich respectively. Therefore, the Kong Family are deemed to be interested in 75,000,000 shares in the Company through the interest in Right Rich.

Long positions in shares and underlying shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Shares	Numbers of shares	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Kong Jian Min	Plus Earn	Company's holding company	Ordinary shares	765	Directly beneficially owned	76.5
	Right Rich	Company's holding company	Ordinary shares	765	Directly beneficially owned	76.5
Mr. Kong Jian Tao	Plus Earn	Company's holding company	Ordinary shares	150	Directly beneficially owned	15
	Right Rich	Company's holding company	Ordinary shares	150	Directly beneficially owned	15
Mr. Kong Jian Nan	Plus Earn	Company's holding company	Ordinary shares	85	Directly beneficially owned	8.5
	Right Rich	Company's holding company	Ordinary shares	85	Directly beneficially owned	8.5

Save as disclosed above, as at 31 December 2007, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' rights to acquire shares or debentures

Save as disclosed in the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share option scheme

By the resolutions of shareholders of the Company passed on 11 June 2007, a share option scheme (the "Share Option Scheme") was conditionally approved. Since the Share Option Scheme has become effective upon the Company's listing, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the year and there are no outstanding share options under the Share Option Scheme as at 31 December 2007.

Contract of significance

No contracts of significance in relation to the Company's business to which the Company, its subsidiaries, or its holding company was a party and in which a director has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Substantial shareholders' and other persons' interests in shares and underlying shares

At 31 December 2007, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Note	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Plus Earn		Directly beneficially owned	1,612,500,000	62.2
SSF Swift Holdings Limited	(a)	Beneficial owner	187,500,000	7.2
Morgan Stanley Real Estate Special Situations Fund 111, L.P.	(a)	Through a controlled corporation	187,500,000	7.2
Morgan Stanley Real Estate Special Situations III-GP, L.L.C.	(a)	Through a controlled corporation	187,500,000	7.2
MSRESS III Manager, L.L.C.	(a)	Through a controlled corporation	187,500,000	7.2

Note:

- (a) MSRESS III Manager, L.L.C. ("MRESS") owns the entire interest in Morgan Stanley Real Estate Special Situations III-GP, L.L.C. ("Morgan Stanley Situations GP"). Morgan Stanley Situations GP owns less than 1% interest in Morgan Stanley Real Estate Special Situations Fund 111, L.P. ("Morgan Stanley Situations Fund") which in turn Morgan Stanley Situations Fund owns the entire interest in SSF Swift Holdings Limited ("SSF Swift"). Accordingly, Morgan Stanley Situations Fund and Morgan Stanley Situations GP are deemed to be interested in 187,500,000 shares of the Company which are held by SSF Swift.

Save as disclosed above, as at 31 December 2007, no person, other than the directors and chief executive of the Company, whose interests are set out in the section “Directors’ and chief executive’s interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Connected transactions

During the year, the Company and the Group had no connected transactions which are required to disclose in accordance with the requirements of Chapter 14A of the Listing Rules.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company’s total issued share capital was held by the public as at the date of this report, being the latest practical date prior to the date of this report.

Directors’ interests in a competing business

During the year and up to the date of this report, none of the directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Kong Jian Min

Chairman

Hong Kong

26 March 2008

Independent Auditors' Report



To the shareholders of KWG Property Holding Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of KWG Property Holding Limited set out on pages 57 to 127, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

18th Floor

Two International Finance Centre

8 Finance Street, Central

Hong Kong

26 March 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	3,868,136	654,632
Cost of sales		(1,809,200)	(452,404)
Gross profit		2,058,936	202,228
Other income and gains	5	206,549	25,633
Selling and marketing costs		(65,437)	(32,572)
Administrative expenses		(148,099)	(51,265)
Other operating expenses, net		(1,086)	(963)
Fair value gains on investment properties		2,288,520	151,611
Finance costs	7	(18,749)	(15,455)
Share of profits and losses of a jointly-controlled entity		(36)	(81)
PROFIT BEFORE TAX	6	4,320,598	279,136
Tax	10	(1,637,788)	(121,980)
PROFIT FOR THE YEAR		2,682,810	157,156
Attributable to:			
Equity holders of the parent	11	2,683,055	157,156
Minority interests		(245)	–
		2,682,810	157,156
DIVIDENDS	12		
Proposed final		389,063	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic			
– For profit for the year		RMB120 cents	RMB9 cents

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	227,685	557,349
Investment properties	15	3,650,919	531,545
Land use rights	16	875,254	290,836
Interest in a jointly-controlled entity	18	3,905	3,941
Deferred tax assets	31	111,371	31,933
Long term prepayment	19	933,359	–
Total non-current assets		5,802,493	1,415,604
CURRENT ASSETS			
Properties under development	20	7,745,585	1,815,109
Completed properties held for sale	21	1,189,629	8,948
Trade receivables	22	34,620	3,042
Prepayments, deposits and other receivables	23	735,413	74,816
Due from a jointly-controlled entity	18	29,001	–
Due from a director	24	–	77,428
Taxes recoverable	25	1,800	5,051
Restricted cash	26	147,353	202,432
Cash and cash equivalents	26	3,288,639	803,904
Total current assets		13,172,040	2,990,730
CURRENT LIABILITIES			
Trade payables	27	3,437,982	98,501
Other payables and accruals	28	1,755,906	568,933
Interest-bearing bank borrowings	29	275,068	1,127,108
Due to a jointly-controlled entity	18	–	12,999
Due to related companies	30	–	168,778
Taxes payable	25	1,149,171	136,103
Total current liabilities		6,618,127	2,112,422
NET CURRENT ASSETS		6,553,913	878,308
TOTAL ASSETS LESS CURRENT LIABILITIES		12,356,406	2,293,912

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		12,356,406	2,293,912
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	29	2,445,404	1,190,850
Deferred tax liabilities	31	638,656	116,035
Total non-current liabilities		3,084,060	1,306,885
Net assets		9,272,346	987,027
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	32	254,093	–
Reserves	34(a)	7,890,527	987,027
Proposed final dividend	12	389,063	–
		8,533,683	987,027
Minority interests		738,663	–
Total equity		9,272,346	987,027

Kong Jian Min
Director

Kong Jian Tao
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Notes	Attributable to equity holders of the parent									
		Issued capital	Share premium		Reserve funds	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
			account	Contributed surplus							
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2006		251,700	-	-	55,639	-	301,936	-	609,275	-	609,275
Exchange realignment		-	-	-	-	6,031	-	-	6,031	-	6,031
Gain on disposal of subsidiaries	37	-	-	985	-	-	-	-	985	-	985
Total income and expense for the year recognised directly in equity		-	-	985	-	6,031	-	-	7,016	-	7,016
Profit for the year		-	-	-	-	-	157,156	-	157,156	-	157,156
Total income and expense for the year		-	-	985	-	6,031	157,156	-	164,172	-	164,172
Issue of shares		-	666,873	-	-	-	-	-	666,873	-	666,873
Distribution arising from the Reorganisation		(251,700)	-	(985)	-	-	(200,608)	-	(453,293)	-	(453,293)
At 31 December 2006 and 1 January 2007		-	666,873	-	55,639	6,031	258,484	-	987,027	-	987,027
Exchange realignment		-	-	-	-	(45,550)	-	-	(45,550)	127	(45,423)
Total income and expense recognised directly in equity		-	-	-	-	(45,550)	-	-	(45,550)	127	(45,423)
Profit/(loss) for the year		-	-	-	-	-	2,683,055	-	2,683,055	(245)	2,682,810
Total income and expense for the year		-	-	-	-	(45,550)	2,683,055	-	2,637,505	(118)	2,637,387
Acquisition of subsidiaries	36	-	-	-	-	-	-	-	-	1,650	1,650
Capitalisation of share premium account	32(a)	184,241	(184,241)	-	-	-	-	-	-	-	-
Issue of shares	32	69,852	5,015,374	-	-	-	-	-	5,085,226	-	5,085,226
Share issue expenses	32	-	(176,075)	-	-	-	-	-	(176,075)	-	(176,075)
Capital contribution from minority shareholders		-	-	-	-	-	-	-	-	737,131	737,131
Transfer to reserves		-	-	-	94,705	-	(94,705)	-	-	-	-
Proposed final 2007 dividend	12	-	-	-	-	-	(389,063)	389,063	-	-	-
At 31 December 2007		254,093	5,321,931*	-	150,344*	(39,519)*	2,457,771*	389,063	8,533,683	738,663	9,272,346

* These reserve accounts comprise the consolidated reserves of RMB7,890,527,000 (2006: RMB987,027,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,320,598	279,136
Adjustments for:			
Finance costs	7	18,749	15,455
Share of profits and losses of a jointly-controlled entity		36	81
Interest income	5	(133,327)	(3,749)
Gain on disposal of investment properties	5	(13,784)	(14,812)
Depreciation	6	5,930	3,047
Amortisation of land use rights	6	263	108
Changes in fair values of investment properties	15	(2,288,520)	(151,611)
		1,909,945	127,655
Increase in properties under development		(5,543,926)	(205,407)
(Increase)/decrease in completed properties held for sale		(1,180,681)	3,550
(Increase)/decrease in trade receivables		(31,578)	1,766
Increase in prepayments, deposits and other receivables		(630,086)	(57,890)
Decrease in amount due from a director		77,428	68,691
Increase/(decrease) in trade payables		3,339,481	(235,021)
Increase in other payables and accruals		1,171,431	158,589
Decrease in amounts due to related companies		(168,778)	(12,703)
Increase in amount due to a director		–	10,689
(Decrease)/increase in balance with a jointly-controlled entity		(42,000)	1,551
Increase in restricted cash		(97,706)	(17,173)
Cash used in operations		(1,196,470)	(155,703)
Interest received		133,327	3,749
Interest paid		(186,874)	(100,140)
Corporate income tax paid		(185,586)	(42,458)
Land appreciation tax paid		(30,914)	(10,489)
Net cash outflow from operating activities		(1,466,517)	(305,041)

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Net cash outflow from operating activities		(1,466,517)	(305,041)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	(413,713)	(321,837)
Acquisition of land use rights	16	(779,575)	(5,477)
Increase in long term prepayment	19	(933,359)	–
Proceeds from disposal of investment properties		65,379	45,495
Acquisition of subsidiaries	36	(143,638)	–
Disposal of subsidiaries	37	–	(2,207)
Investment in a jointly-controlled entity		–	(2,501)
Net cash outflow from investing activities		(2,204,906)	(286,527)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32	5,085,226	666,873
Share issue expenses	32	(176,075)	–
Decrease/(increase) in restricted cash		152,785	(152,785)
Distribution arising from Reorganisation		–	(453,293)
New bank loans		2,735,723	1,527,558
Repayment of bank and other loans		(2,282,016)	(405,140)
Capital contributions from minority shareholders		737,131	–
Net cash inflow from financing activities		6,252,774	1,183,213
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		803,904	212,688
Effect of foreign exchange rate changes, net		(96,616)	(429)
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,288,639	803,904
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	3,169,400	751,444
Non-pledged time deposits with original maturity of less than three months when acquired	26	119,239	52,460
		3,288,639	803,904

Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	499	–
Interests in subsidiaries	17	6,004,880	904,582
Total non-current assets		6,005,379	904,582
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	444	7,088
Cash and cash equivalents	26	127,247	52,460
Total current assets		127,691	59,548
CURRENT LIABILITIES			
Other payables and accruals	28	944	–
Total current liabilities		944	–
NET CURRENT ASSETS		126,747	59,548
Net assets		6,132,126	964,130
EQUITY			
Issued capital	32	254,093	–
Reserves	34(b)	5,488,970	964,130
Proposed final dividend	12	389,063	–
Total equity		6,132,126	964,130

Kong Jian Min
Director

Kong Jian Tao
Director

Notes to Financial Statements

31 December 2007

1. Corporate information and group reorganisation

The Company was incorporated in the Cayman Islands on 28 July 2006 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, Grand Cayman KY1-1111, Cayman Islands.

Mr. Kong Jian Min, Mr. Kong Jian Tao and Mr. Kong Jian Nan (hereinafter collectively referred to as the "Kong Family") owned various companies in the People's Republic of China (the "PRC") principally engaging in property development, property investment and property management. To rationalise the corporate structure in preparation for the listing of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company underwent the reorganisation (the "Reorganisation") to acquire all the subsidiaries and jointly-controlled entity carrying on the property development, property investment and property management business (the "Core Business Entities") from the Kong Family and to dispose of certain subsidiaries carrying on other non-property development and investment holding businesses (the "Non-core Business Entities") to Mr. Kong Jian Min. Details of the Reorganisation are set out in the Prospectus of the Company dated 18 June 2007.

The Company's shares were listed on the Stock Exchange on 3 July 2007.

During the year, the Group was involved in the following principal activities in the PRC:

- property development
- property investment
- provision of property management services

In the opinion of the directors, the holding company of the Company is Plus Earn Consultants Limited, which is incorporated in the British Virgin Islands.

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group. All the subsidiaries of the Group are under common control during the periods as they are directly or indirectly wholly owned by the Kong Family and the Kong Family governs their financial and operating policies prior to and after the Reorganisation. Accordingly, the comparative amounts for the year ended 31 December 2006 has been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting.

2.1 Basis of preparation *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

Business combinations under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs, as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combining the existing book values from the controlling parties perspective. No amount is recognised in respect of goodwill or excess of acquirers' interests in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

2.2 Impact of new and revised Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 7	<i>Financial Instruments: Disclosures</i>
HKAS 1 Amendment	<i>Capital Disclosures</i>
HK(IFRIC)-Int 8	<i>Scope of HKFRS 2</i>
HK(IFRIC)-Int 9	<i>Reassessment of Embedded Derivatives</i>
HK(IFRIC)-Int 10	<i>Interim Financial Reporting and Impairment</i>

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) HKAS 1 Amendment – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 44 to the financial statements.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. This interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

2.2 Impact of new and revised Hong Kong Financial Reporting Standards *(continued)*

(e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	<i>Share-based Payments-Vesting Conditions and Cancellations</i> ⁴
HKFRS 3 (Revised)	<i>Business Combinations</i> ⁵
HKFRS 8	<i>Operating Segments</i> ⁴
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ⁴
HKAS 23 (Revised)	<i>Borrowing Costs</i> ⁴
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ⁵
HK(IFRIC)-Int 11	<i>HKFRS 2 – Group and Treasury Share Transactions</i> ¹
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i> ²
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> ³
HK(IFRIC)-Int 14	<i>HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> ²

¹ Effective for annual periods beginning on or after 1 March 2007

² Effective for annual periods beginning on or after 1 January 2008

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 January 2009

⁵ Effective for annual periods beginning on or after 1 July 2009

HKFRS 2 has been amended to restrict the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

2.3 Impact of issued but not yet effective Hong Kong Financial Reporting Standards *(continued)*

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised to introduce changes in presentation and disclosures of financial statements and does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKAS 27 has been revised to require a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes introduced by HKFRS 3 (revised) and HKAS 27 (revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

2.3 Impact of issued but not yet effective Hong Kong Financial Reporting Standards *(continued)*

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

2.4 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

2.4 Summary of significant accounting policies *(continued)*

Joint ventures *(continued)*

- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Jointly-controlled operations

Joint venture arrangements which involve the use of the assets and other reserves of the Group and other parties, without the establishment of a separate entity, are referred to as jointly-controlled operations. Under this arrangement, assets remain under the ownership and control of each party. Revenue and expenses incurred in common are shared by the parties according to the contractual arrangement.

Assets that the Group controls and liabilities that it incurs in relation to jointly-controlled operations are recognised in the Group's consolidated balance sheets on an accrual basis and are classified according to the nature of the items. The Group's share of the income that it earns from jointly-controlled operations, together with the expenses that it incurs, is included in the Group's consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to the consolidated income statement.

2.4 Summary of significant accounting policies *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, completed properties held for sale, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.4 Summary of significant accounting policies *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3% – 5%
Leasehold improvements	20%
Plant and machinery	10% – 20%
Furniture, fixtures and office equipment	10% – 20%
Motor vehicles	10% – 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Assets under construction represent properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. These properties are reclassified as investment properties or appropriate category of property, plant and equipment as the case may be upon completed and ready for use.

2.4 Summary of significant accounting policies *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

2.4 Summary of significant accounting policies *(continued)*

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivable together with any associated allowance are written off when there is no realistic prospect of future recovery.

2.4 Summary of significant accounting policies *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 Summary of significant accounting policies *(continued)*

Financial liabilities at amortised cost (including interest-bearing bank borrowings)

Financial liabilities including trade and other payables, and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 Summary of significant accounting policies *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 Summary of significant accounting policies *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with under the grant relates to an expenses item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) property management fee income, when related management services have been provided; and
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.4 Summary of significant accounting policies *(continued)*

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as and when the contributions fall due.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The Company's functional currency is in Hong Kong dollar while the presentation currency of these financial statements is in RMB. In the opinion of the directors, as the Group's operations are mainly in the PRC, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 Summary of significant accounting policies *(continued)*

Foreign currencies *(continued)*

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. Significant accounting judgements and estimates *(continued)*

Judgements *(continued)*

Classification between investment properties and properties held for sales

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by the management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after its completion, whereas, the properties are accounted for as assets under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale and are stated at cost, while the properties held to earn rentals and/or for capital appreciation are transferred to investment properties and are subject to revaluation at each balance sheet date.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Corporate income taxes

The Group is subject to corporate income taxes in the PRC. As a result of the fact that certain matters relating to the corporate income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters are different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provision in the period in which the differences realise.

PRC land appreciation taxes

The Group is subject to land appreciation taxes in the PRC. The provision of land appreciation taxes is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual land appreciation tax liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its land appreciation tax calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the land appreciation tax expenses and the related provision in the period in which the differences realise.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2007 was nil (2006: RMB31.9 million). Further details are contained in note 31 to the financial statements.

3. Significant accounting judgements and estimates *(continued)*

Estimation uncertainty *(continued)*

Fair value of investment properties

Investment properties are revalued at the balance sheet date on a market value, existing use basis by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information from current prices in an active market for similar properties is considered and assumptions that are mainly based on market conditions existing at the balance sheet date are used.

Recognition and allocation of construction cost on properties under development

Development costs of properties are recorded as properties under development during construction stage and will be transferred to completed properties held for sale upon completion. An apportionment of these costs will be recognised in the income statements upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

4. Segment information

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC. Summary details of the business segments are as follows:

- (a) the property development segment engages in the development and sale of properties;
- (b) the property investment segment invests in properties for their rental income and/or for capital appreciation; and
- (c) the property management segment engages in the provision of management services to residential and commercial properties.

There were no intersegment sales and transfers during the year (2006: Nil).

4. Segment information *(continued)*

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Year ended 31 December 2007

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	3,846,838	11,639	9,659	3,868,136
Segment results	1,980,306	2,312,417	1,994	4,294,717
Interest income and unallocated income				192,765
Unallocated expenses				(148,099)
Finance costs				(18,749)
Share of profit and loss of a jointly- controlled entity	(36)	–	–	(36)
Profit before tax				4,320,598
Tax				(1,637,788)
Profit for the year				2,682,810
Assets and liabilities				
Segment assets	10,340,248	4,316,615	188	14,657,051
Interest in a jointly-controlled entity	3,905	–	–	3,905
Unallocated assets				4,313,577
Total assets				18,974,533
Segment liabilities	3,616,568	605,427	–	4,221,995
Unallocated liabilities				5,480,192
Total liabilities				9,702,187
Other segment information:				
Depreciation and amortisation	4,916	1,245	32	6,193
Fair value gains on investment properties	–	2,288,520	–	2,288,520

Notes to Financial Statements

31 December 2007

4. Segment information *(continued)*

Business segments *(continued)*

Year ended 31 December 2006

	Property development	Property investment	Property management	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	646,871	3,390	4,371	654,632
Segment results	166,186	168,573	357	335,116
Interest income and unallocated income				10,821
Unallocated expenses				(51,265)
Finance costs				(15,455)
Share of profit and loss of a jointly- controlled entity	(81)	–	–	(81)
Profit before tax				279,136
Tax				(121,980)
Profit for the year				157,156
Assets and liabilities				
Segment assets	1,847,574	1,359,045	210	3,206,829
Interest in a jointly-controlled entity	3,941	–	–	3,941
Unallocated assets				1,195,564
Total assets				4,406,334
Segment liabilities	571,491	31,055	–	602,546
Unallocated liabilities				2,816,761
Total liabilities				3,419,307
Other segment information:				
Depreciation and amortisation	3,103	21	31	3,155
Fair value gains on investment properties	–	151,611	–	151,611

5. Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the gross proceeds, net of business tax, from the sale of properties, gross rental income received and receivable from investment properties and property management fee income during the year.

An analysis of revenue, other income and gains is as follows:

	2007 RMB'000	2006 RMB'000
Revenue		
Sale of properties	3,846,838	646,871
Gross rental income	11,639	3,390
Property management fees	9,659	4,371
	3,868,136	654,632
Other income and gains		
Bank interest income	133,327	3,749
Gain on disposal of investment properties	13,784	14,812
Government grant*	7,900	–
Foreign exchange differences, net	43,179	–
Others	8,359	7,072
	206,549	25,633

* A government grant has been received for setting up business in an economic and technological development zone in Guangzhou, the PRC. There are no unfulfilled conditions or contingencies relating to this grant.

Notes to Financial Statements

31 December 2007

6. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2007 RMB'000	2006 RMB'000
Cost of properties sold		1,804,785	450,936
Depreciation	14	5,930	3,047
Amortisation of land use rights	16	263	108
Minimum lease payments under operating leases of land and buildings		1,819	1,702
Auditors' remuneration		3,468	416
Employee benefits expense (excluding directors' remuneration (note 8)):			
Wages and salaries		63,875	30,022
Pension scheme contributions*		2,835	988
Less: Amount capitalised in assets under construction and properties under development		(30,224)	(13,790)
		36,486	17,220
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		2,337	591

* At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future year (2006: Nil).

7. Finance costs

	Group	
	2007 RMB'000	2006 RMB'000
Interest on bank and other loans wholly repayable within five years	186,629	105,802
Interest on amounts due to related companies	245	5,879
Less: Interest capitalised	(168,125)	(96,226)
	18,749	15,455

8. Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Fees	1,027	–
Other emoluments:		
Salaries, allowances and benefits in kind	2,246	1,515
Pension scheme contributions	132	8
	2,378	1,523
	3,405	1,523

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007 RMB'000	2006 RMB'000
Mr. Lee Ka Sze, Carmelo	140	–
Mr. Dai Feng	140	–
Mr. Tam Chun Fai	140	–
	420	–

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

Notes to Financial Statements

31 December 2007

8. Directors' remuneration *(continued)*

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2007				
Executive directors:				
Mr. Kong Jian Min	140	801	35	976
Mr. Kong Jian Tao	140	443	34	617
Mr. Kong Jian Nan	140	443	34	617
Mr. Li Jian Ming	140	392	25	557
Mr. Tsui Kam Tim	47	167	4	218
	607	2,246	132	2,985
2006				
Executive directors:				
Mr. Kong Jian Min	–	865	3	868
Mr. Kong Jian Tao	–	325	3	328
Mr. Kong Jian Nan	–	325	2	327
	–	1,515	8	1,523

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

One of the five executive directors of the Company is also the chief financial officer of the Company and the remuneration of this director stated above include the remuneration paid to him as the chief financial officer after his appointment of director on 7 November 2007.

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2006: three) directors, details of whose remuneration are set out in note 8 above. One of them is the chief financial officer of the Company and was appointed as executive director on 7 November 2007. Details of the emoluments of this director prior to his appointment and details of the emoluments of the remaining one (2006: two) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	2,613	2,592
Pension scheme contributions	19	–
	2,632	2,592

The number of non-director, highest paid employees whose emoluments fell within the following bands is as follows:

	Number of employees	
	2007	2006
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	–	1
	2	2

No emoluments were paid by the Group to the directors or any of the non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2006: Nil).

Notes to Financial Statements

31 December 2007

10. Tax

	Group	
	2007 RMB'000	2006 RMB'000
Group:		
Current – Hong Kong	–	–
Current – PRC		
Corporate income tax (“CIT”)	660,604	58,895
Land appreciation tax (“LAT”)	572,215	32,828
	1,232,819	91,723
Deferred (note 31)	404,969	30,257
Total tax charge for the year	1,637,788	121,980

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the majority of the Group’s subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Profit before tax	4,320,598	279,136
At statutory income tax rate of 33% (2006:33%)	1,425,797	92,115
Effect on deferred tax of decrease in rates	(205,208)	–
Income not subject to tax	(44,982)	(674)
Expenses not deductible for tax	22,400	7,527
Land appreciation tax	572,215	32,828
Effect of land appreciation tax	(143,054)	(10,833)
Others	10,620	1,017
Tax charge at the Group’s effective rate of 37.9% (2006:43.7%)	1,637,788	121,980

10. Tax *(continued)***Hong Kong profits tax**

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the year.

PRC corporate income tax

The PRC corporate income tax in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the years ended 31 December 2006 and 2007, based on the existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC corporate income tax law passed by the Tenth National People's Congress on 16 March 2007, the new corporate income tax rates for domestic and foreign enterprises are unified at 25%, which is effective from 1 January 2008. As a result, the corporate income tax rate of all the subsidiaries of the Company incorporated in the PRC, will change from 33% to 25% with effect from 1 January 2008. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, has been reflected in this financial statements for the year ended 31 December 2007.

PRC land appreciation tax

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

11. Profit attributable to equity holders of the parent

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB480,358,000 (2006: RMB2,042,000) which has been dealt with in the financial statements of the Company (note 34(b)).

Notes to Financial Statements

31 December 2007

12. Dividends

	2007 RMB'000	2006 RMB'000
Proposed final – RMB15 cents (2006: Nil) per ordinary share	389,063	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year. For the year ended 31 December 2006, the weighted average number of ordinary shares for the purposes of basic earnings per share has been adjusted for the capitalisation issue in June 2007.

A diluted earnings per share amount for the years ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2007 RMB'000	2006 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	2,683,055	157,156

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,231,849,315	1,711,130

14. Property, plant and equipment**Group**

	Buildings RMB'000	Leasehold improve- ments RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
31 December 2007							
At 31 December 2006 and at 1 January 2007:							
Cost	10,538	1,329	3,188	4,360	19,489	529,535	568,439
Accumulated depreciation	(1,695)	(1,079)	(1,124)	(1,032)	(6,160)	-	(11,090)
Net carrying amount	8,843	250	2,064	3,328	13,329	529,535	557,349
At 1 January 2007, net of accumulated depreciation	8,843	250	2,064	3,328	13,329	529,535	557,349
Additions	-	-	-	4,511	4,208	404,994	413,713
Disposals	-	-	-	(7)	-	-	(7)
Depreciation provided during the year	(1,493)	(250)	(610)	(1,296)	(2,281)	-	(5,930)
Write back of disposals	-	-	-	7	-	-	7
Transfers	70,355	-	-	-	-	(70,355)	-
Transfer to investment properties (note 15)	-	-	-	-	-	(712,493)	(712,493)
Reclassification	-	-	-	-	-	(24,954)	(24,954)
At 31 December 2007, net of accumulated depreciation	77,705	-	1,454	6,543	15,256	126,727	227,685
At 31 December 2007:							
Cost	80,893	1,329	3,188	8,864	23,697	126,727	244,698
Accumulated depreciation	(3,188)	(1,329)	(1,734)	(2,321)	(8,441)	-	(17,013)
Net carrying amount	77,705	-	1,454	6,543	15,256	126,727	227,685

Notes to Financial Statements

31 December 2007

14. Property, plant and equipment *(continued)*

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Assets under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2006							
At 1 January 2006:							
Cost	10,538	1,329	2,221	1,627	16,243	272,958	304,916
Accumulated depreciation	(1,252)	(945)	(569)	(443)	(4,834)	–	(8,043)
Net carrying amount	9,286	384	1,652	1,184	11,409	272,958	296,873
At 1 January 2006, net of accumulated depreciation							
additions	–	–	967	2,733	3,246	314,891	321,837
Depreciation provided during the year	(443)	(134)	(555)	(589)	(1,326)	–	(3,047)
Transfer to investment properties (note 15)	–	–	–	–	–	(58,314)	(58,314)
At 31 December 2006, net of accumulated depreciation							
Cost	10,538	1,329	3,188	4,360	19,489	529,535	568,439
Accumulated depreciation	(1,695)	(1,079)	(1,124)	(1,032)	(6,160)	–	(11,090)
Net carrying amount	8,843	250	2,064	3,328	13,329	529,535	557,349

14. Property, plant and equipment *(continued)*

Company	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2007			
At 31 December 2006 and 1 January 2007, net of accumulated depreciation	–	–	–
Additions	47	482	529
Depreciation provided during the year	(7)	(23)	(30)
At 31 December 2007, net of accumulated depreciation	40	459	499
At 31 December 2007:			
Cost	47	482	529
Accumulated depreciation	(7)	(23)	(30)
Net carrying amount	40	459	499

At 31 December 2007, certain of the Group's building of RMB52,001,000 (2006: Nil) were pledged to banks for securing the loans granted to the Group (note 29).

At 31 December 2006, certain of the Group's assets under construction of RMB16,819,000 were pledged to banks for securing the loans granted to the Group (note 29).

At the balance sheet date, the Group is in the progress of obtaining the property ownership certificates of the Group's buildings with net carrying amount of approximately RMB51,861,000 (2006: Nil) from the relevant government authorities. The related land use right certificates had been obtained and the directors of the Company consider that the aforementioned property ownership certificates will be obtained in the near future.

15. Investment properties

	Group	
	2007 RMB'000	2006 RMB'000
Carrying amount at 1 January	531,545	344,618
Transfer from land use rights (note 16)	169,956	7,685
Transfer from assets under construction (note 14)	712,493	58,314
Disposals	(51,595)	(30,683)
Net gains from a fair value adjustment	2,288,520	151,611
Carrying amount at 31 December	3,650,919	531,545

The Group's investment properties are situated in the PRC and are held under the lease terms of 10 to 50 years.

The Group's investment properties were revalued on 31 December 2007 by CB Richard Ellis Limited, independent professionally qualified valuers, at RMB3,650,919,000 on an open market, existing use basis. Certain of the Group's investment properties are leased to third parties under operating lease, further summary details of which are included in note 40(a). The gross rental income received and receivable by Group and direct expenses in respect of these investment properties are summarised as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Gross rental income	11,639	3,390
Direct expenses	(2,337)	(591)
Net rental income	9,302	2,799

At 31 December 2007, the Group's investment properties with a value of RMB3,153,739,000 (2006: RMB341,396,000) were pledged to secure general banking facilities granted to the Group (note 29).

At the balance sheet date, the Group is in the progress of obtaining the property ownership certificates of the Group's investment properties with net carrying amount of approximately RMB3,157,580,000 (2006: Nil) from the relevant government authorities. The related land use right certificates had been obtained and the directors of the Company consider that the aforementioned property ownership certificates will be obtained in the near future.

Further particulars of the Group's major investment properties are included on page 130 of the annual report.

16. Land use rights

	Group	
	2007 RMB'000	2006 RMB'000
At 1 January	290,944	293,260
Additions	779,575	5,477
Amortisation recognised as expenses	(263)	(108)
Reclassification	(24,427)	–
Transfer to investment properties (note 15)	(169,956)	(7,685)
At 31 December	875,873	290,944
Current portion included in prepayments, deposits and other receivables	(619)	(108)
Non-current portion	875,254	290,836
Located in the PRC and held under the lease terms of 10 to 50 years	875,873	290,944

Certain of the Group's land use rights of RMB47,193,000 (2006: RMB45,485,000) were pledged to banks to secure the loans granted to the Group (note 29).

At the balance sheet date, the Group is in the progress of obtaining the land use right certificates of the Group with an aggregate net carrying amount of approximately RMB393,096,000 (2006: Nil) from the relevant government authorities. The directors of the Company consider that the relevant land use right certificate will be obtained upon the full payment of the purchase consideration in accordance with the terms of the land acquisition agreements.

17. Interests in subsidiaries

	Company	
	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	300,306	300,306
Due from subsidiaries	5,704,574	604,276
	6,004,880	904,582

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Notes to Financial Statements

31 December 2007

17. Interests in subsidiaries *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Happy Clear Consultants Limited ("Happy Clear")	British Virgin Islands/ Hong Kong	US\$1,000	100	–	Investment holding
Reach Luck Consultants Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Boom Faith International Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Rising Wave Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Good Excel Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Prime Way Enterprises Limited ^	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Guangzhou Hejing Real Estate Development Limited*#	PRC	US\$99,000,000	–	100	Property development
Guangzhou Hejing Meifu Real Estate Development Limited#	PRC	US\$12,930,000	–	100	Property development
Guangzhou Hejing Yingfu Real Estate Development Limited#	PRC	RMB35,000,000	–	100	Property development

17. Interests in subsidiaries *(continued)*Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Xinhengchang Enterprise Development Limited*#	PRC	RMB792,000,000	–	100	Property development
Guangzhou Zhongtianying Real Estate Development Limited*#	PRC	US\$198,000,000	–	100	Property development
Guangzhou Tianjian Real Estate Development Limited*#	PRC	RMB1,485,000,000	–	100	Property development
Guangzhou Fuxin Property Management Limited*#	PRC	RMB7,000,000	–	100	Property management
Guangzhou Ningjun Property Management Limited*#	PRC	RMB7,000,000	–	100	Property management
Guangzhou Junzhao Property Operation Limited*#	PRC	RMB7,000,000	–	100	Property management
Guangzhou Jinyi Construction Project Supervision Limited#	PRC	RMB20,000,000	–	100	Construction supervision and consultancy
Chengdu Zhongtianying Real Estate Development Limited#*	PRC	RMB20,000,000	–	100	Property development
Guangzhou Liangyu Investment Limited ("Guangzhou Liangyu")#*	PRC	RMB30,000,000	–	94.5	Property development

Notes to Financial Statements

31 December 2007

17. Interests in subsidiaries *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hainan New World Property Development (HK) Limited ("Hainan New World")#**	PRC	HK\$15,000,000	–	100	Property development
Suzhou Heijing Real Estate Development Limited#**	PRC	RMB20,000,000	–	100	Property development
Dongguan Heijing Hanyuan Investment Limited#**	PRC	RMB20,000,000	–	100	Property development

* These entities are registered as wholly-foreign-owned enterprises under PRC law.

The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.

+ These companies were acquired by the Group during the year, further details of acquisition of subsidiaries are included in note 36 to the financial statements.

^ These companies were newly established during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. Interest in a jointly-controlled entity/amounts due from/(to) a jointly-controlled entity

	Group	
	2007 RMB'000	2006 RMB'000
Share of net assets	3,905	3,941
Due from/(to) a jointly-controlled entity	29,001	(12,999)

18. Interest in a jointly-controlled entity/amounts due from/(to) a jointly-controlled entity *(continued)*

The amount due from/(to) a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. The carrying amounts of the amounts due from/(to) a jointly-controlled entity approximate to their fair values.

Particulars of the jointly-controlled entity are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
Guangzhou Weibai Real Estate Development Limited	Registered capital of RMB8,100,000	PRC	50	50	50	Property development

The English name of this company referred to in these financial statements represent management's best effort to translate the Chinese names of this company, as no English name has been registered.

The above investment in jointly-controlled entity is indirectly held by the Company through a wholly-owned subsidiary.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2007 RMB'000	2006 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	33,655	14,938
Current liabilities	(29,750)	(10,997)
Net assets	3,905	3,941
Share of the jointly-controlled entity's results:		
Other income	50	12
Total expenses	(86)	(93)
Tax	-	-
Loss after tax	(36)	(81)

Notes to Financial Statements

31 December 2007

19. Long term prepayment

The Group's long term prepayment represented the partial payment of a parcel of land in Guangzhou, Guangdong Province, the PRC. Pursuant to a joint venture agreement signed by the Group and another two joint venture partners, a joint venture company ("JV Co") will be set up to undertake a property development project on the aforementioned parcel of land. The Group and the other two joint venture partners will hold equity interests in the JV Co in the respective proportion of 33.33%, 33.33% and 33.34%. As at 31 December 2007, the JV Co had not been established and the amount prepaid by the Group was recorded as long term prepayment on the consolidated balance sheet.

20. Properties under development

	Group	
	2007	2006
	RMB'000	RMB'000
Properties under development expected to be recovered:		
Within one year	6,484,002	1,527,762
After more than one year	1,261,583	287,347
	7,745,585	1,815,109

The Group's properties under development were located in the PRC.

At 31 December 2006, the carrying amount of the Group's properties under development was pledged as security for the Group's bank loans amounting to RMB665,136,000, as further detailed in note 29 to the financial statements.

Included in the Group's properties under development as at 31 December 2007 were land costs with an aggregate carrying amount of approximately RMB5,771,813,000 (2006: Nil) in which the Group is in the progress of obtaining land use right certificates from the relevant government authorities. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration in accordance with the terms of the land acquisition agreements.

Further particulars of the Group's major properties under development are set out on page 130 of the annual report.

21. Completed properties held for sale

The Group's completed properties held for sale are located in the PRC. All completed properties held for sale are stated at cost.

At 31 December 2007, the carrying amount of the Group's completed properties held for sale was pledged as security for the Group's bank loans amounting to RMB327,674,000 (2006: Nil), as further details in note 29 to the financial statements.

Further particulars of the Group's major completed properties held for sale are set out on page 130 of the annual report.

22. Trade receivables

	Group	
	2007	2006
	RMB'000	RMB'000
Trade receivables	34,620	3,042

The Group's trade receivables mainly arise from sale of properties. Consideration in respect of properties sold are payable by the purchasers in accordance with the terms of the related sale and purchase agreements. Trade receivables are non-interest-bearing. An aged analysis of the trade receivables as at the respective balance sheet dates is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Within 3 months	30,103	1,277
4 to 6 months	4,127	750
7 to 12 months	390	460
Over 1 year	–	555
	34,620	3,042

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Neither past due nor impaired	34,230	2,027
1 to 6 months past due	390	1,015
	34,620	3,042

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Notes to Financial Statements

31 December 2007

23. Prepayments, deposits and other receivables

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Prepayments	79,562	48,003	438	7,088
Deposits and other receivables	655,851	26,813	6	–
	735,413	74,816	444	7,088

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. Amount due from a director

The balance was related to Mr. Kong Jin Min and the maximum outstanding balance during the year was RMB77,428,000 (2006: RMB84,628,000). The amount due from a director as at 31 December 2006 arose from non-trade activities. It was unsecured, interest-free and was settled during the year.

25. Taxes recoverable/taxes payable

(a) Taxes recoverable

	Group	
	2007 RMB'000	2006 RMB'000
Prepaid CIT	226	4,588
Prepaid LAT	1,574	463
	1,800	5,051

(b) Taxes payable

	Group	
	2007 RMB'000	2006 RMB'000
CIT payable	536,948	66,292
LAT payable	612,223	69,811
	1,149,171	136,103

26 . Cash and cash equivalents and restricted cash

	Notes	Group		Company	
		2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Cash and bank balances		3,316,753	953,876	8,008	–
Time deposits		119,239	52,460	119,239	52,460
		3,435,992	1,006,336	127,247	52,460
Less: Restricted cash	(a)	(147,353)	(202,432)	–	–
Cash and cash equivalents		3,288,639	803,904	127,247	52,460
Denominated in RMB	(b)	1,888,351	950,531	–	–
Denominated in other currencies		1,547,641	55,805	127,247	52,460
		3,435,992	1,006,336	127,247	52,460

Notes:

(a) Restricted cash includes the following amounts:

- (i) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for construction of the relevant properties. As at 31 December 2007 and 2006, such guarantee deposits amounted to approximately RMB147,353,000 and RMB41,647,000, respectively.
- (ii) As at 31 December 2006 the Group's bank balances of RMB8,000,000 were deposited in a bank as guarantee deposit for the relevant bank to issue performance bonds to a supplier of the Group.
- (iii) As at 31 December 2006, the Group's time deposits of approximately RMB152,785,000 were related to balances borrowed by the Group for the purpose of capital injection into the subsidiaries of the Group. These balances were restricted to use by the relevant bank. Such restriction was released during the year.

(b) The RMB is not freely convertible into other currencies, however, subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one and seven days depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the restricted cash approximate to their fair values.

Notes to Financial Statements

31 December 2007

27. Trade payables

An aged analysis of the trade payables as at the balance sheet date is as follows:

	Group	2006
	2007	RMB'000
	RMB'000	RMB'000
Due within one year or on demand	3,437,982	98,501

The trade payables are non-interest-bearing and are normally on terms of three to six months.

28. Other payables and accruals

	Group		Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits received and receipt in advance	784,013	504,045	–	–
Accruals and other payables	971,893	64,888	944	–
	1,755,906	568,933	944	–

Other payables are non-interest-bearing and have an average term of three months.

29. Interest-bearing bank borrowings

	2007			2006		
	Contractual interest rate (%)	Maturity#	RMB'000	Contractual interest rate (%)	Maturity#	RMB'000
Current						
Bank loans – secured	5.67 – 7.02	2008	86,160	6.73	2007	16,500
US\$76.9 million – secured loan	–	–	–	LIBOR+2.5	2007	599,898
Bank loans – unsecured	–	–	–	6.44 – 6.73	2007	105,500
Current portion of long term bank loans						
– secured	5.67 – 6.93	2008	118,680	6.03 – 6.93	2007	405,210
– HK\$851.9 million secured	HIBOR+1.15	2008	70,228	–	–	–
			275,068			1,127,108
Non-current						
Bank loans – secured	5.67 – 7.72	2009 – 2015	760,931	6.03 – 6.84	2008 – 2015	1,190,850
Bank loans – unsecured	6.72 – 8.22	2009 – 2010	957,000	–	–	–
Bank loans – HK\$851.9 million secured	HIBOR+1.15	2009 – 2014	727,473	–	–	–
			2,445,404			1,190,850
			2,720,472			2,317,958

29. Interest-bearing bank borrowings *(continued)*

	Group	
	2007	2006
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	275,068	1,127,108
In the second year	690,555	269,000
In the third to fifth years, inclusive	1,563,918	725,000
Beyond five years	190,931	196,850
	2,720,472	2,317,958

Notes:

- (a) Certain of the Group's bank loans are secured by the Group's assets, details of which are disclosed in note 39.

Certain bank loans as at 31 December 2006 were supported by guarantees provided from the following related parties :

	2006
	RMB'000
Secured bank loans:	
Personal guarantees from a director, Mr. Kong Jing Min	370,500
Personal guarantees from the Kong Family	599,898
	970,398

The guarantees provided by the above related parties in respect of bank loans granted to the Group have been fully released during the year.

- (b) Except for the HK\$851.9 million secured bank loan which is denominated in Hong Kong dollars, all borrowings are in RMB as at the balance sheet date. At 31 December 2006, the carrying amounts of all the Group's borrowings were denominated in RMB except for a secured loan balance of US\$76.9 million which was denominated in United States dollars. Such US\$76.9 million borrowing was a bridge loan borrowed by the Group to facilitate the Reorganisation.

In the opinion of the directors of the Company, the carrying amounts of the Group's bank borrowings approximate to their fair values.

Notes to Financial Statements

31 December 2007

30. Amounts due to related companies

	Notes	2007 RMB'000	2006 RMB'000
China Concept International Holdings Limited ("China Concept")	(a)	–	51,714
Guangzhou Kailian Enterprise Development Limited ("Kailian")*	(b)	–	46,964
Guangzhou Kaiyu Trading Limited ("Kaiyu")*	(c)	–	27,000
Guangzhou Kaihui Trading Development Limited*	(d)	–	26,100
Guangzhou Fuhui Property Development Limited*	(d)	–	17,000
		–	168,778

Notes:

- (a) China Concept is owned as to 65% by Mr. Kong Jian Min and as to 35% by Mr. Kong Jian Tao, both are directors of the Company.
- (b) Kailian is owned as to 90% by Mr. Kong Jian Nan, director of the Company and as to 10% by Kaiyu.
- (c) Kaiyu is beneficially owned by Mr. Kong Jian Min.
- (d) These companies were disposed of by the Group to Mr. Kong Jian Min during the year ended 31 December 2006.

* The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.

Except for the aggregate amounts of RMB98,100,000 due to related companies as at 31 December 2006 which bore interest at 6.14% to 7.34% per annum for the year (2006: 6.14% to 7.34% per annum), all of the amounts due to related companies arose from non-trade activities and were unsecured, interest-free and settled during the year.

31. Deferred tax

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	2007 Revaluation of investment properties RMB'000	Total RMB'000
At 1 January 2007	–	116,127	116,127
Deferred tax charged to the income statement during the year (note 10)	–	534,829	534,829
Acquisition of a subsidiary (note 36)	38,214	–	38,214
Gross deferred tax liabilities at 31 December 2007	38,214	650,956	689,170

Deferred tax assets

Group

	Provision of LAT RMB'000	2007 Losses available for offset against future taxable profits RMB'000	Total RMB'000
At 1 January 2007	24,858	7,167	32,025
Deferred tax credited/(charged) to the income statement during the year (note 10)	137,027	(7,167)	129,860
Gross deferred tax assets at 31 December 2007	161,885	–	161,885
Net deferred tax recognised at 31 December 2007			(527,285)

Notes to Financial Statements

31 December 2007

31. Deferred tax (continued)

Deferred tax liabilities

Group

	2006 Revaluation of investment properties RMB'000
At 1 January 2006	72,018
Deferred tax charged to the income statement during the year (note 10)	44,109
Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2006	116,127

Deferred tax assets

Group

	Provision of LAT RMB'000	2006 Losses available for offset against future taxable profits RMB'000	Total RMB'000
At 1 January 2006	13,963	4,210	18,173
Deferred tax credited to the income statement during the year (note 10)	10,895	2,957	13,852
Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2006	24,858	7,167	32,025
Net deferred tax recognised at 31 December 2006			(84,102)

For the purpose of the balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2007 RMB'000	2006 RMB'000
Net deferred tax assets recognised in the consolidated balance sheet	111,371	31,933
Net deferred tax liabilities recognised in the consolidated balance sheet	(638,656)	(116,035)
	(527,285)	(84,102)

31. Deferred tax *(continued)*

The Group has unutilised tax losses of RMB23,038,000 (2006: RMB25,331,000) that can be carried forward for five years in which losses arose for offsetting against future taxable profits of the entities in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

As at 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or jointly-controlled entity as the Group has no liabilities to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

32. Share capital**Shares**

	2007	2006
	RMB'000	RMB'000
Authorised:		
8,000,000,000 (2006: 3,800,000) ordinary shares of HK\$0.10 each	786,113	384
Issued and fully paid:		
2,593,750,000 (2006: 2,000) ordinary shares of HK\$0.10 each	254,093	–

During the year, the movements in share capital were as follows:

- (a) Pursuant to a written resolution of shareholders of the Company passed on 11 June 2007, the authorised share capital of the Company was increased from HK\$380,000 to HK\$800,000,000 by the creation of 7,996,200,000 additional shares of HK\$0.10 each, ranking *pari passu* in all respects with the existing share capital of the Company and the directors were authorised to issue and allot 1,874,998,000 shares at par as fully paid to the shareholders whose names appeared on the register of the members of the Company on 11 June 2007 by way of capitalisation of a sum of HK\$187,500,000 which was then standing to the credit of the share premium account of the Company.
- (b) On 3 July 2007, the Company's shares were listed on the Stock Exchange and the Company issued 625,000,000 new ordinary shares of HK\$0.10 each at HK\$7.28 per share with gross proceeds of approximately HK\$4,550,000,000.
- (c) On 9 July 2007, pursuant to the exercise of the Over-allotment Option under the Global Offering, 93,750,000 additional new ordinary shares of HK\$0.10 each were also issued at HK\$7.28 per share with gross proceeds of approximately HK\$682,500,000.

Notes to Financial Statements

31 December 2007

32. Share capital (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of ordinary shares	Nominal value of ordinary shares HK\$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 28 July 2006 (date of incorporation)	1	–	–	–	–
Issued of shares of HK\$0.10 each	1,999	–	–	666,873	666,873
At 31 December 2006 and 1 January 2007	2,000	–	–	666,873	666,873
Capitalisation issue – note (a)	1,874,998,000	187,500	184,241	(184,241)	–
Issue of shares in connection with the listing – notes (b) and (c)	718,750,000	71,875	69,852	5,015,374	5,085,226
	2,593,750,000	259,375	254,093	5,498,006	5,752,099
Share issue expenses	–	–	–	(176,075)	(176,075)
At 31 December 2007	2,593,750,000	259,375	254,093	5,321,931	5,576,024

33. Share option scheme

Pursuant to a written resolution of the shareholders of the Company on 11 June 2007, a share option scheme (the "Scheme") was conditionally approved. On 3 July 2007, the aforesaid approval of the Scheme became unconditionally and effective as the Company's shares were listed on the Stock Exchange. The Scheme is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Group's directors, including independent non-executive directors, any full-time or part-time employees of the Group, suppliers, customers, advisers, consultants and agents to the Group. Upon becoming effective, the Scheme will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme must not in aggregate exceed 10% of the shares of the Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (but taking no account of any shares which were allotted or issued pursuant to the exercise of the Over-allotment Option). Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme at any time shall not exceed 30% of the shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

33. Share option scheme *(continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the year, no share options under the Scheme were granted, exercised or cancelled by the Company and there was no outstanding share option under the Scheme as at the date of approval of these financial statements.

34. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Pursuant to the relevant laws and regulations in the PRC, the Group's subsidiaries which are registered in the PRC shall appropriate certain percentage of profit for the year (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds which are restricted as to use. During the year ended 31 December 2007, the Group appropriated approximately RMB94,705,000 to such reserve funds in accordance with relevant law and regulations in the PRC (2006: Nil).

For the year ended 31 December 2006, distribution arising from the Reorganisation represented the consideration paid by the Group to the Kong Family in exchange for the equity interests in the Core Business Entities pursuant to the Reorganisation.

Notes to Financial Statements

31 December 2007

34. Reserves (continued)

(b) Company

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 28 July 2006, (date of incorporation)		-	-	-	-	-
Issue of shares		666,873	-	-	-	666,873
Profit for the period		-	-	-	2,042	2,042
Arising from the Reorganisation		-	308,006	-	-	308,006
Exchange realignment		-	-	(12,791)	-	(12,791)
At 31 December 2006		666,873	308,006	(12,791)	2,042	964,130
Capitalisation of share premium account		(184,241)	-	-	-	(184,241)
Issue of shares	32	5,015,374	-	-	-	5,015,374
Share issue expenses	32	(176,075)	-	-	-	(176,075)
Profit for the year		-	-	-	480,358	480,358
Exchange realignment		-	-	(221,513)	-	(221,513)
Proposed final 2007 dividend	12	-	-	-	(389,063)	(389,063)
At 31 December 2007		5,321,931	308,006	(234,304)	93,337	5,488,970

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation, over the nominal value of the Company's shares in exchange therefor.

35. Interests in jointly-controlled operations

The Group has entered into three (2006: two) joint venture arrangements in the form of jointly-controlled operations with certain parties, to jointly undertake three (2006: two) property development projects located in Guangzhou, the PRC. As at 31 December 2007, the aggregate amounts of assets, liabilities, income and losses recognised in respect of these jointly-controlled operations were as follows:

	2007 RMB'000	2006 RMB'000
Assets	748,483	220,726
Liabilities	(8,562)	(8,962)
Income	-	-
Losses	-	-

36. Acquisition of subsidiaries

On 5 February 2007, the Group acquired a 94.5% interest in Guangzhou Liangyu. Guangzhou Liangyu is engaged in property development. The purchase consideration for the acquisition was in the form of cash, with RMB28,350,000 paid at the acquisition date.

On 26 October 2007, the Group acquired a 100% interest in Hainan New World. Hainan New World is engaged in property development. The purchase consideration for the acquisition was in the form of cash, with RMB115,288,000 paid at the acquisition date and the remaining of RMB15,542,000 will be paid upon the completion of land demolition.

The fair values of the identifiable assets and liabilities of Guangzhou Liangyu and Hainan New World as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	Previous carrying amount RMB'000
Properties under development	169,044	16,190
Prepayments, deposits and other receivables	30,000	30,000
Deferred tax liabilities	(38,214)	–
Minority interests	(1,650)	–
	159,180	46,190
		RMB'000
Satisfied by cash		143,638
Outstanding amount payable		15,542
		159,180

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash consideration	143,638
Cash and bank balances acquired	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	143,638

Since the acquisitions, Hainan New World and Guangzhou Liangyu reduced the consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 by approximately nil and RMB37,000, respectively. There would be no material changes in the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 should the above acquisitions have been taken place on 1 January 2007.

Notes to Financial Statements

31 December 2007

37. Disposal of subsidiaries

	2006 RMB'000
<hr/>	
Net assets disposed of:	
Cash and cash equivalents	2,207
Prepayments, deposits and other receivables	13,607
Due from related companies	98,481
Due to a director	(10,689)
Interest-bearing bank borrowings	(43,100)
	<hr/>
	60,506
	<hr/>
Gain on disposal of subsidiaries	985
	<hr/>
	61,491
	<hr/>
Satisfied by:	
Cash	–
Due from a director	61,491
	<hr/>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2006 RMB'000
<hr/>	
Cash consideration	–
Cash and cash equivalents disposed of	(2,207)
	<hr/>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(2,207)
	<hr/>

38. Contingent liabilities

At the balance sheet date, contingent liabilities of the Group not provided for in the financial statements were as follows:

	Notes	2007 RMB'000	2006 RMB'000
Guarantees in respect of mortgage facilities for certain purchasers of the Group's properties	(a)	1,558,092	340,787
Guarantees given to banks and financial institutions in connection with loans granted to related companies	(b)	–	64,100
		1,558,092	404,887

Notes:

- (a) As at 31 December 2007 and 2006, the Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalty owed by the purchasers to the banks and the Group is entitled to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of property ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made as at 31 December 2007 and 2006 for the guarantees.

- (b) The loans guaranteed by the Group to related companies were utilised to the extent of approximately RMB64,100,000 as at 31 December 2006.

The fair value of the guarantees is not significant and the directors consider the risk of default in payment is remote, and therefore no provision for the guarantees has been made in these financial statements. All the bank loans guaranteed by the Group had been repaid during the year and the guarantees had been released upon repayment.

At the balance sheet date, the Company did not have any significant contingent liabilities.

Notes to Financial Statements

31 December 2007

39. Pledge of assets

- (a) At each of the balance sheet dates, the following assets of the Group were pledged to certain banks for securing the loans granted to the Group:

	Group	
	2007	2006
	RMB'000	RMB'000
Buildings	52,001	–
Assets under construction	–	16,819
Land use rights	47,193	45,485
Investment properties	3,153,739	341,396
Properties under development	–	665,136
Completed properties held for sale	327,674	–
	3,580,607	1,068,836

- (b) The equity interests of certain Core Business Entities, intermediate holding companies incorporated in the British Virgin Islands, Happy Clear and the Company were pledged to a bank for the loan granted and were released during the year.

- (c) At the balance sheet date, the following assets of the Group were pledged to certain banks and financial institutions for securing the loans granted to certain related companies:

	Group	
	2007	2006
	RMB'000	RMB'000
Investment properties	–	89,960
Properties under development	–	6,875
	–	96,835

All such loans guaranteed by the Group had been fully repaid during the year.

- (d) At 31 December 2006, the Group's certain assets under construction and land use rights with carrying amounts of RMB459,917,000 and RMB169,834,000 respectively were pledged to a bank for securing a term loan facility of HK\$1,000,000,000 provided to the Group.

40. Operating lease arrangements

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Within one year	36,960	477
In the second to fifth years, inclusive	102,649	–
After five years	31,334	–
	170,943	477

(b) As lessee

The Group and the Company leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 3 years.

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,010	155	639	–

Notes to Financial Statements

31 December 2007

41. Commitments

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment – Assets under construction	237,701	375,525
Properties being developed by the Group for sale	865,207	837,652
Investment in a jointly-controlled entity	1,383,430	–
	2,486,338	1,213,177

The Company did not have any commitment at the balance sheet date.

42. Related party transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
	Note	2007	2006
		RMB'000	RMB'000
Interest charged by related companies	(i)	245	5,879

Note:

(i) The interest is charged, with reference to the market rates, at interest rates of 6.14% to 7.34% per annum, for the years ended 31 December 2007 and 2006.

(b) Outstanding balances with related parties:

(i) Details of the Group's amount due to related companies are included in note 30 to the financial statements.

(ii) Details of the Group's amount due from the Company's director are included in note 24 to the financial statements.

(iii) Details of the Group's balances with its jointly-controlled entity are included in note 18 to the financial statements.

42. Related party transactions *(continued)*

(c) Compensation of key management personnel of the Group:

	2007	2006
	RMB'000	RMB'000
Short term employee benefits	6,997	4,000
Post-employment benefits	378	22
Total compensation paid to key management personnel	7,375	4,022

Further details of directors' emoluments are included in note 8 to the financial statements.

43. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets – Loan and receivables

	Group	
	2007	2006
	RMB'000	RMB'000
Trade receivables	34,620	3,042
Financial assets included in prepayments, deposits and other receivables (note 23)	655,851	26,813
Due from a jointly-controlled entity	29,001	–
Due from a director	–	77,428
Taxes recoverable	1,800	5,051
Restricted cash	147,353	202,432
Cash and cash equivalents	3,288,639	803,904
	4,157,264	1,118,670

Notes to Financial Statements

31 December 2007

43. Financial instruments by category *(continued)*

Financial liabilities – Financial liabilities at amortised cost

	Group	
	2007 RMB'000	2006 RMB'000
Trade payables	3,437,982	98,501
Financial liabilities included in other payables and accruals (note 28)	971,893	64,888
Interest-bearing bank borrowings	2,720,472	2,317,958
Due to a jointly-controlled entity	–	12,999
Due to related companies	–	168,778
	7,130,347	2,663,124

Financial assets – Loan and receivables

	Company	
	2007 RMB'000	2006 RMB'000
Due from subsidiaries (note 17)	5,704,574	604,276
Financial assets included in prepayments, deposits and other receivables (note 23)	6	–
Cash and cash equivalents	127,247	52,460
	5,831,827	656,736

Financial liabilities – Financial liabilities at amortised cost

	Company	
	2007 RMB'000	2006 RMB'000
Financial liabilities included in other payables and accruals (note 28)	944	–

44. Financial risk management objectives and policies

The financial assets of the Group mainly include cash and cash equivalents, restricted cash, trade receivables, deposits and other receivables, amounts due from a director and a jointly controlled entity and taxes recoverable. The financial liabilities of the Group mainly include trade payables, other payables and accruals, bank loans, amounts due to related companies and a jointly controlled entity.

The carrying amounts of the Group's financial instruments approximated to their fair values as at each of the balance sheet dates. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Business risk

The Group conducts its operations in the PRC, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the property development industry.

Interest rate risk

The Group has no significant interest-bearing assets. The Group's exposure to changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its cash flow interest rate risk.

Notes to Financial Statements

31 December 2007

44. Financial risk management objectives and policies *(continued)*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Group Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2007			
RMB	200	(37,737)	(28,303)
Hong Kong dollar	200	(15,954)	(11,966)
RMB	(200)	37,737	28,303
Hong Kong dollar	(200)	15,954	11,966
	Increase/ (decrease) in basis points	Group Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2006			
RMB	200	(31,977)	(21,438)
United States dollar	200	(1,000)	(1,000)
RMB	(200)	31,997	21,438
United States dollar	(200)	1,000	1,000

44. Financial risk management objectives and policies *(continued)***Foreign currency risk**

The Group's businesses are located in the PRC and all transactions are mainly conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB except for the Hong Kong dollar bank loans and certain short term bank deposits in Hong Kong dollars and United States dollars. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in HK\$ rate %	Group Increase/ (decrease) in US\$ rate %	Increase/ (decrease) in profit before tax RMB'000
2007			
If RMB weakens against Hong Kong dollar	(5)	n/a	(20,758)
If RMB strengthens against Hong Kong dollar	5	n/a	20,758
If RMB weakens against United States dollar	n/a	(5)	58,264
If RMB strengthens against United States dollar	n/a	5	(58,264)
2006			
If RMB weakens against United States dollar	n/a	(5)	(27,372)
If RMB strengthens against United States dollar	n/a	5	27,372

Credit risk

The Group has no concentration on credit risk. The Group's cash and cash equivalents are mainly deposits with state-owned banks in the PRC and high-credit rating banks in Hong Kong.

The carrying amounts of trade and other receivables, cash and cash equivalents included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligation of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 38.

Notes to Financial Statements

31 December 2007

44. Financial risk management objectives and policies *(continued)*

Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents and have available funding through an adequate amount of committed credit facilities to meet the Group's construction commitments.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, is as follows:

Group

	2007					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	-	-	275,068	2,254,473	190,931	2,720,472
Trade payables	3,437,982	-	-	-	-	3,437,982
Other payables and accruals	971,893	-	-	-	-	971,893
	4,409,875	-	275,068	2,254,473	190,931	7,130,347

	2006					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	-	-	1,127,108	994,000	196,850	2,317,958
Trade payables	98,501	-	-	-	-	98,501
Other payables and accruals	64,888	-	-	-	-	64,888
	163,389	-	1,127,108	994,000	196,850	2,481,347

Company

	2007					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals	944	-	-	-	-	944
	944	-	-	-	-	944

44. Financial risk management objectives and policies *(continued)***Liquidity risk** *(continued)***Company**

	2006					Total RMB'000
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Other payables and accruals	-	-	-	-	-	-

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital using a gearing ratio, which is the net borrowings (total borrowings net of cash and cash equivalent and restricted cash) divided by total equity attributable to equity holders of the parent. The Group's policy is to maintain a stable gearing ratio. Capital includes share capital and reserves attributable to the Company's equity holders. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Net borrowings	715,520	1,311,622
Total equity attributable to equity holders of the parent	8,533,683	987,027
Gearing ratio	-8.4%[#]	132.9%

[#] The Group was in a net cash position as at 31 December 2007.

45. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2008.

Financial Summary

CONSOLIDATED RESULTS

	Year ended 31 December			2007 RMB'000
	2004 RMB'000	2005 RMB'000	2006 RMB'000	
Revenue	544,962	437,748	654,632	3,868,136
Profit before tax	190,920	231,521	279,136	4,320,598
Tax	(62,517)	(98,526)	(121,980)	(1,637,788)
Profit for the year	128,403	132,995	157,156	2,682,810
Attributable to:				
Equity holders of the parent	128,403	132,995	157,156	2,683,055
Minority interests	–	–	–	(245)
	128,403	132,995	157,156	2,682,810
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
Basic				
– For profit for the year	N/A	N/A	RMB9 cents	RMB120 cents

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As of 31 December			2007 RMB'000
	2004 RMB'000	2005 RMB'000	2006 RMB'000	
ASSETS				
Non-current assets	613,495	949,589	1,415,604	5,802,493
Current assets	1,297,981	1,895,037	2,990,730	13,172,040
Total assets	1,911,476	2,844,626	4,406,334	18,974,533
LIABILITIES				
Current liabilities	1,023,455	1,306,481	2,112,422	6,618,127
Non-current liabilities	511,741	928,870	1,306,885	3,084,060
Total liabilities	1,535,196	2,235,351	3,419,307	9,702,187
EQUITY				
Equity attributable to equity holders of the parent	376,280	609,275	987,027	8,533,683
Minority interests	–	–	–	738,663
Total equity	376,280	609,275	987,027	9,272,346

The consolidated results of the Group for the year ended 31 December 2007 and the consolidated assets, liabilities and equity of the Group as at 31 December 2007 are those set out in the audited financial statements.

The summary of the consolidated results of the Group for each of the three years ended 31 December 2004, 2005 and 2006 and of the assets, liabilities and equity as at 31 December 2004, 2005 and 2006 have been extracted from the Prospectus issued on 18 June 2007 in connection with the listing of the Company's shares on 3 July 2007 (note 32 to the financial statements). Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis as set out in note 2.1 to the financial statements.

No financial information of the Group for the year ended 31 December 2003 has been published.

The summary above does not form part of the audited financial statements.

The Group's land and buildings, included above at cost, were valued at RMB162,748,000 as at 31 March 2007 in the Prospectus. Had the Group's buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2007, an additional depreciation charge of RMB2,060,000 would have been charged to the consolidated income statement for the year ended 31 December 2007.

Major Properties held by the Group

Property	The Group's interest (%)	Location	Site area ('000 sq.m.)	Total GFA ('000 sq.m.)	Use	Stage of development	Expected date of completion
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Major completed properties held for sale

Cosmos	100	Tianhe District, Guangzhou	23	197	Luxury apartments	Completed	N/A
Sky Ville	100	Huadu District, Guangzhou	485	108	Townhouses and apartments	Completed	N/A
Linghui Chuangzhan Commercial Centre	100	Tianhe District, Guangzhou	30	46	Office building	Completed	N/A
Jinghu Garden	100	Huadu District, Guangzhou	52	125	Apartments	Completed	N/A

Major properties under development

朗悦灣	100	Xiangcheng District, Suzhou	196	213	Townhouses and apartments	Under-development	2008
從化上城灣畔	100	Conghua District, Guangzhou	228	280	Townhouses and apartments	Under-development	2008
Suzhou land lots B & C	100	Xiangcheng District, Suzhou	348	788	Apartments, hotel and office	Under-development	2009
Chengdu land lots No.3, 9 & 10	65	South New District, Chengdu	201	666	Apartments, serviced apartments, office building and shopping mall	Under-development	2009
Chengdu land lots No.6 & 7	100	Western High-Tech Zone, Chengdu	118	529	Apartments	Under-development	2009

Property	The Group's interest (%)	Use	Tenure
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Major investment properties

International Finance Place, Plot J-6, Pearl River New Town, Tianhe District, Guangzhou City, Guangdong Province, the PRC	100	Office and retail shops	Medium term lease
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KWG Property Holding Limited

合景泰富地產控股有限公司

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