Business Review

Bringing in strategic partners allows the Group to accelerate returns from its projects, releases the capital that can be invested in other projects, helps the Group to diversify its risks, enhances the Group's cashflow and allows the Group access to certain expertise and know how that the partners possess and are beneficial to the future development of the Group's projects.

For the year ended 31 December 2007, the Group achieved a turnover of RMB4,570 million, 3% below the RMB4,729 million of 2006. The principal reason for the decline was because Shanghai Taipingqiao, Lot 113 (Lakeville 3) will now be launched in planned phases over 2008 and 2009, thereby building on our continued success in Shanghai Taipingqiao. Similar to 2006, property sales accounted for approximately 89% of the turnover, with rental income and other related activities accounting for the remaining 11%.

The Group's profit attributable to shareholders of the Company for the year amounted to RMB2,462 million, an increase of 115% over 2006 (2006: RMB1,146 million).

Excluding the effect of revaluation of investment properties and fair value adjustment on derivative financial instruments, the Group's underlying profit attributable to shareholders of the Company was RMB2,060 million, an increase of 34% when compared to 2006 (2006: RMB1,536 million).

Accelerating Growth through Strategic Partnerships

During the year, it remained the Group's strategy to accelerate growth by forging strategic partnerships with developers, contractors, consultants and other investors and to replicate those relationships in our other projects in the same city or elsewhere, to the extent commercially feasible, when such relationships are proving to be beneficial and working well, thereby also enhancing our operational efficiency.

Bringing in strategic partners to co-develop the Group's projects, either at a project level and/or at a phase level, is a stated strategy that the Group has been following. This strategy allows the Group to accelerate returns from its projects, releases the capital that can be invested in other projects, helps the Group to diversify its risks, enhances the Group's cashflow and allows the Group access to certain expertise and know how that the partners possess and are beneficial to the future development of the Group's projects.

In July 2007, Trophy Property Development, L.P., a collective investment scheme (the "Trophy Fund") managed by Winnington Capital Limited, was brought in as a strategic partner through the transfer of a 25% interest in Wuhan Tiandi and a 49% interest in Lot116 of the Shanghai Taipingqiao project to the Trophy Fund for a total consideration of approximately RMB1,609 million, giving rise to a total gain of approximately RMB845 million recognized as income by the Group in 2007.

Following the tremendous success of the development and sales of Lakeville Regency that generated total sales in excess of RMB6 billion over 2006 and 2007, the Group offered to buy out the strategic partners' 30% equity interest in the company holding Lakeville Regency for a cash consideration of USD116 million, which was determined as a result of arm's length negotiations. The acquisition was completed in October 2007 after having sold the vast majority of the units at Lakeville Regency. The subsequent sales of the remaining units at Lakeville Regency, however, actually commanded higher prices than those assumed in the acquisition. Such higher prices gave rise to a gain of RMB80 million beyond those assumed in the consideration of USD116 million. The gain has credited to the income statement by the Group in 2007. The buyout further allows the Group the flexibility of using the same vehicle to carry on the further development of other phases of the Shanghai Taipingqiao project, and the flexibility of retaining the RMB proceeds from sales of Lakeville Regency to be reinvested in the Group's other projects in the PRC.

Landbank

The Group continues with its high growth trajectory through acquisition of sites located in prime strategic locations.

During the year, the Group has acquired the following two new projects:

(i) Dalian Tiandi • Software Hub

In May 2007, the Group has entered into an agreement with Shui On Construction and Materials Limited and Yida Group Company Limited ("Yida Group"), an experienced developer in Northern China, to form a joint venture (the "joint venture") for the development of Dalian Tiandi • Software Hub, a large-scale multi-faceted project focusing on the global software industry. This hub will bring together businesses, information technology and software development centres, commercial and residential properties, as well as educational and research facilities, outdoor recreational and other public amenities. The entire project, comprising 23 plots of land with an expected GFA of over 3.5 million sq.m., is planned for development in phases over a period of 8 to 10 years up to 2018. Two plots of land at Huangnichuan Road North (known as W1-A and W2-A) have been transferred from Yida Group into the joint venture and land titles have been obtained in January 2008. In March 2008, the joint venture has won the bid for three more plots of land at Huangnichuan Road North with a total GFA of approximately 394,000 sq.m. Accordingly, the joint venture has successfully acquired all the land development rights at Huangnichuan Road North as planned in the control specific master plan, totaling approximately 1.77 million sq.m.

The Hekou Bay site comprising approximately 1.19 million sq.m. of GFA is expected to be the subject of public bidding within 2008. It is the intention of the joint venture to bid for the Hekou Bay site as well as the other 16 plots of land with a total GFA of 588,000 sq.m. Acquisition of these lands will be by way of competitive bidding and there is no assurance that the joint venture will be successful in acquiring them. The Group has a 48% interest in the joint venture.

(ii) Foshan Lingnan Tiandi

The Group won a competitive bid in November 2007 for a site with a total GFA of approximately 1.5 million sq.m. in Foshan that is located within 20 km. of Guangzhou in the Guangdong Province. The Foshan government has already commenced the relocation process and is targeting to hand over cleared land to the Group in phases over the next two and a half years. The Group's objective is to develop Foshan Lingnan Tiandi into a landmark project in Southern China over 8 to 10 years, restoring and emphasising traditional Lingnan culture.


88 Xintiandi in Shanghai

The above acquisitions have increased the Group's total landbank to 13.1 million sq.m. (10.0 million sq.m. attributable to the Group) as of 31 December 2007, a 56% increase from 2006. Currently, the Group's landbank comprises 8 development projects, spanning over 6 cities, namely Shanghai, Hangzhou, Chongqing, Wuhan, Dalian and Foshan.

The proposed acquisition of the development rights to a piece of land with a GFA of approximately 137,400 sq.m. in Yangpu District, Shanghai (also known as Plot A of Lot 24) that is adjacent to the Group's existing Shanghai Knowledge and Innovation Community development project continued to make progress. Agreement has been reached, subject to government approvals, to acquire the company that currently owns the development rights of the land. The land title of the lot has been released in early April 2008 for public bidding and the acquisition process is expected to be completed before the end of 2008.

In addition, memoranda of understanding ("MOUs") have been signed during the year with the respective municipal governments in three other cities in Yunnan Province, namely Dali, Diqing (Shangri-La) and Lijiang for the proposed development of regional tourism resort property projects. The location of the proposed development in these cities and the proposed size of each project are as follows:

- Dali: North Area, Hai Dong New District, Dali (大理市海東新區北片區), has a proposed GFA of approximately 2,500,000 sq.m.;
- Diqing (Shangri-La): Ming Jun Area, Xiao Zhong Dian Town, Shangri-La County, Diqing (迪慶州香格里拉縣小中甸明峻地區), has a proposed GFA of approximately 760,000 sq.m.; and
- Lijiang: La Shi Hai Pian Area, Yulong County, Lijiang City (麗江市玉龍縣拉市海片區), has a proposed GFA of approximately 1,200,000 sq.m.

These, together with the MOU that the Group has signed in 2006 with the Kunming municipal government for the proposed redevelopment of the northern Caohai District adjacent to the famous Dianchi Lake in Kunming City (昆明市滇池縣草海北部片區) which has a proposed GFA of approximately 2,500,000 sq.m., will add a further approximately 6.96 million sq.m. of GFA to the Group's total landbank.

The above MOUs signed with the four municipal city governments of Yunnan Province are all legally non-binding in nature. The final project sizes are subject to further discussions.

Property Development

Shanghai Taipingqiao

Construction of the third phase of Lakeville (Lot 113) is progressing as scheduled with the superstructure of towers 1, 2, 9 and 10 having been topped out, internal and external finishing work is now in progress. Pre-sale of certain of these units is expected to commence in early May 2008.

Relocation at Lots 126 and 127, on which 136,700 sq.m. of office and retail spaces is expected to be built, is progressing slower than expected with approximately half of the households having been relocated at the end of 2007.

Shanghai Rui Hong Xin Cheng

Phase 3 of the development that comprises Lots 4, 6, and 8 is at the design stage. The site at Lot 8 has been relocated and piling work has been completed. Construction work is expected to commence shortly and is scheduled to complete in 2009. Approximately half the number of households on Lot 4 and one third on Lot 6 have been relocated at end of 2007. We expect to launch the pre-sale of the first batch of Phase 3 in 2009.

Shanghai Knowledge and Innovation Community

Development works at Lots 7-7, 7-9 and 8-2 (KIC Village, R2) and KIC Plaza Phase 2 are all progressing as planned. As such, construction of the basement and superstructure at Lots 7-9 and 8-2 have been completed. Finishing works are now in progress and expected to complete by mid-2008. In addition, piling work at Lot 7-7 is underway.

Hangzhou Xihu Tiandi

Relocation is in progress at Phase 2 of Xihu Tiandi and targeted to complete before the end of 2008. Construction will commence in the fourth quarter of 2008 and is targeted to complete by end of 2010.

Chongqing Tiandi

Construction of the first phase of the residential development, Lot B1-1/01 (The Riviera), is expected to be completed by the end of June 2008, providing 107,000 sq.m. or 784 units, all of which will then be available for pre-sale.

Demolition work has recently been completed at Lot B2-1/01 (the second phase of the residential development in this project) and construction work has commenced in April 2008. Development work at Lot B3/01 for commercial use is in progress and is expected to complete in early 2009.

Wuhan Tiandi

In 2007, construction of the first batch of residential units located at Lot A9 (The Riverview) with 29,000 sq.m. of GFA or 187 units has been completed and sold in the fourth quarter of 2007, 1,000 sq.m. of GFA is presently held as showflats.

The superstructure of the second batch of residential units located at Lot A7 (The Riverview) with 39,000 sq.m. of GFA or 265 units has been completed with internal and external finishing work now in progress. Pre-sale of these units is expected to commence in the second quarter of 2008.

Piling work at Lots A6, A8 and A10 residential development all commenced in October 2007 and construction of the superstructure on these residential sites is expected to commence in the second quarter of 2008.

Lot A4-1 is completed and being leased out. Construction works at Lots A4-2 and A4-3 are in progress.

Dalian Tiandi • Software Hub

Three sites at Huangnichuan Road North (known as W2-B, W3-A, and W3-B) have been acquired in March 2008. Together with the two sites (known as at W1-A and W2-A) that were acquired in June 2007, these sites would provide a planned GFA of approximately 1,765,000 sq.m. that comprises office, hotel, commercial and residential development, supported by school facilities. The specific control master plan has been approved by the planning bureau and consultants have started on conceptual design work.

Foshan Lingnan Tiandi

The site at Foshan Lingnan Tiandi, comprising approximately 1.5 million sq.m. of GFA, has been successfully acquired in November 2007 and relocation is processing well. Demolition work is expected to commence soon. Lot D-1, being a vacated stadium is scheduled to be delivered to us in the second quarter of 2008. On this site, a hotel of approximately 25,000 sq.m. of GFA sitting on a commercial podium of 30,000 sq.m of GFA is currently being designed. In addition, a life style destination similar in concept to Shanghai Xintiandi of about 75,000 sq.m. of GFA comprising retail, culture, entertainment and historic restoration is also currently being designed and construction is expected to commence in the fourth quarter of 2008. This site is adjacent to a nationally renowned temple, a major tourist spot, known as "Zumiao".

During 2007, construction progressed according to plan. The amounts of saleable GFA completed in 2007 and that can be expected to be completed during each of the next three years are set out as follows:

	Saleable GFA (sq.m.)				
Property development held for sale	**2007**	**2008**	**2009**	**2010**	**Group's interest**
Shanghai Taipingqiao, Lot 113 (Lakeville 3)	–	55,000	25,000	–	99.0%
Shanghai Rui Hong Xin Cheng, Lots 4, 6, 8 (Phase 3)	–	–	94,000	126,000	99.0%
Shanghai Knowledge and Innovation Community, Lots 7-7, 7-9, 8-2 (KIC Village, R2)	–	43,000	31,000	–	86.8%*
Shanghai Knowledge and Innovation Community, Lots 6-2, 6-3, 7-5, 7-6 (KIC Village, R3)	–	–	76,000	–	86.8%*
Shanghai Knowledge and Innovation Community, Lots 5-5, 5-7, 5-8	–	–	–	44,000	86.8%*
Chongqing Tiandi, Lots B1-1/01, B2-1/01 (The Riviera)	–	107,000	111,000	92,000	79.4%
Wuhan Tiandi, Lot A9 (The Riverview)	30,000	–	–	–	75.0%
Wuhan Tiandi, Lots A6, A7, A8, A10, A11,A12, B2, B5	–	39,000	86,000	163,000	75.0%
Dalian Tiandi • Software Hub	–	–	–	100,000	48.0%
Total saleable GFA (sq.m.)	**30,000**	**244,000**	**423,000**	**525,000**	

* Agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.

The amounts of leasable GFA completed in 2007 and that can be expected to be completed in each of the next three years are set out as follows:

	Leasable GFA (sq.m.)				
Property development held for investment	**2007**	**2008**	**2009**	**2010**	**Group's interest**
Shanghai Taipingqiao, Lot 113 (Lakeville 3)	–	–	29,000	–	99.0%
Shanghai Rui Hong Xin Cheng, Lots 4, 6, 8 (Phase 3)	–	–	2,000	13,000	99.0%
Shanghai Knowledge and Innovation Community, Lots 7-7, 7-9, 8-2 (KIC Village, R2)	–	4,000	1,000	–	86.8%*
Shanghai Knowledge and Innovation Community, Lots 5-5, 5-7, 5-8	–	–	–	5,000	86.8%*
Shanghai Knowledge and Innovation Community Plaza Phase 2	–	–	60,000	–	86.8%*
Hangzhou Xihu Tiandi, Phase 2	–	–	–	30,000	100.0%
Chongqing Tiandi, Lots B1-1/01, B3/01, B2-1/01	–	5,000	55,000	6,000	79.4%
Wuhan Tiandi, Lots A4, A5	12,000	11,000	20,000	68,000	75.0%
Dalian Tiandi • Software Hub	–	–	–	250,000	48.0%
Foshan Lingnan Tiandi	–	–	–	90,000	100.0%
Total leasable GFA (sq.m.)	**12,000**	**20,000**	**167,000**	**462,000**	
Analysed by usage:					
Office	–	–	41,000	184,000	
Retail	12,000	20,000	109,000	169,000	
Others**	–	–	17,000	109,000	
	12,000	**20,000**	**167,000**	**462,000**	

* Agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.
** Others represent hotels, service apartments and clubhouses

It should be noted that actual completion of construction in the future depends on our construction progress that may be affected by many factors including but without limitation, planning, relocation, construction, operational, managerial and financial resources, approval and regulatory changes and other factors within or beyond the control of the Group.

Property Sales

During the year, the Group had sold a total of approximately 138,000 sq.m. of residential GFA that generated sales, after business tax, of RMB4,085 million, (2006: 123,000 sq.m. and RMB4,283 million).

The property markets across the Chinese Mainland was strong in 2007, particularly during the first half year, fueled by a number of macroeconomic factors, including the growth of the PRC economy, particularly the growth in the size and purchasing power of the upper and middle income earners, the appreciation of the Reminbi, and the PRC political, economic and regulatory environment.

Lot 114 (Lakeville Regency) of our Shanghai Taipingqiao project in Luwan District and Shanghai Knowledge and Innovation Community in Yangpu District sold very well in 2007. In that regard, 10,500 sq.m. or 62 units of Tower 12 and 11,300 sq.m or 61 units of Tower 9 of Lakeville Regency were launched for sale in April and July 2007, respectively. In both cases, almost all the units were sold within a few days. The average selling price of Lakeville Regency in 2007 was 9% higher than that achieved in 2006. A similar experience occurred at Shanghai Knowledge and Innovation Community where 9,850 sq.m. or 106 units of Lot 8-3, KIC Village R1 were sold over a weekend in June 2007. A further 44,000 sq.m. or 379 units of KIC Village R1 were sold in the second half 2007. The average selling price of such sales amounted to RMB18,700 per sq.m., approximately 17% higher than that achieved in 2006. Only approximately 12,000 sq.m. or 17% of the total saleable GFA launched for sale remained available at 31 December 2007.

The first phase of the residential development at Wuhan Tiandi, Lot A9 (The Riverview), comprising 30,000 sq.m. or 190 units were launched for sale in October 2007. All the GFA launched were sold out within hours on the first date of sale, commanding an average selling price of RMB13,500 per sq.m., thereby setting a new benchmark for high-end residential housing in Wuhan.

The inventory carried over from 2006 of 3,000 sq.m. in Shanghai Rui Hong Xin Cheng Phase 2 was all sold in the first half of 2007.

An analysis of the GFA sold and our average selling prices in 2007 is set out below:

Project	Total GFA sold (sq.m.)	Average selling price (RMB/sq.m.)	Group's interest
Shanghai Taipingqiao, Lot 114 (Lakeville Regency)	52,000	54,500	99.0%
Shanghai Knowledge and Innovation Community (KIC Village, R1)	54,000	18,700	86.8%*
Wuhan Tiandi, Lot A9 (The Riverview)	29,000	13,500	75.0%
Shanghai Rui Hong Xin Cheng, Lot 149 (Phase 2)	3,000	16,600	99.0%
Total GFA (sq.m.)	**138,000**		

* Agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.

As of 31 December 2007, the Group's inventory of properties held for sale with construction completed was 13,000 sq.m. of GFA and consisted substantially of residential units at KIC Village, R1 of Shanghai Knowledge and Innovation Community.

The Group expects to launch the following residential properties for sale and pre-sale during 2008:

(i) Shanghai Taipingqiao, Lot 113 (Lakeville 3) comprising 71,000 sq.m. or 434 units;

(ii) Chongqing Tiandi, Lot B1-1/01 (The Riviera) comprising 107,000 sq.m. or 784 units; and

(iii)Wuhan Tiandi, Lot A7 (The Riverview) comprising 39,000 sq.m. or 265 units

The sale and pre-sale of units will be subject to compliance with applicable laws and regulations, and will be dependent on obtaining the requisite approvals, licenses, permits and consents. Recognition of these sales will depend, amongst others, on the timing of completion of construction, issue of occupation permit, and actual completed sales.

Property Investments

The Group's rental income in 2007 was RMB401 million, representing an increase of approximately 12% over that of 2006 (2006: RMB358 million).

As of 31 December 2007, the Group's investment properties consisted of 253,000 sq.m. of GFA, an increase of 5% over 2006 (2006: 241,000 sq.m.), of which approximately half was for office use and the other half for retail use, and comprised:

	Leasable GFA (sq.m.)				
Project	Office	Retail	Others*	Total	Group's interest
Shanghai Xintiandi	5,000	46,000	6,000	57,000	97.0%
Shanghai Corporate Avenue	76,000	7,000	–	83,000	99.0%
Shanghai Rui Hong Xin Cheng, Phase 2 Commercial Complex	–	28,000	–	28,000	99.0%
Shanghai Knowledge and Innovation Community R1	8,000	7,000	–	15,000	86.8%**
Shanghai Knowledge and Innovation Community Plaza Phase 1	29,000	23,000	–	52,000	86.8%**
Hangzhou Xihu Tiandi, Phase 1	–	5,000	1,000	6,000	100.0%
Wuhan Tiandi, Commercial	–	12,000	–	12,000	75.0%
Total leasable GFA, 31 December 2007	**118,000**	**128,000**	**7,000**	**253,000**	
Total leasable GFA, 31 December 2006	118,000	116,000	7,000	241,000	

* Others represent service apartments and clubhouses.
** Agreement has been reached to increase the interest from 70% to 86.8%, subject to the approval by the relevant PRC government authorities.

On the basis that development progress is in accordance with that described in the Property Development section above, the Group's portfolio of investment properties is expected to grow to 273,000 sq.m. of GFA by the end of 2008, 440,000 sq.m. by the end of 2009, and 902,000 sq.m. by the end of 2010. In that event, the size of our investment property portfolio will be 1.1 times, 1.7 times and 3.6 times that of the size as of 31 December 2007 by the end of 2008, 2009 and 2010, respectively.

Shanghai Xintiandi and Shanghai Corporate Avenue continued to be near fully let with average rental rates increasing 14% and 3% over 2006, respectively.

With the repositioning of tenant mix and introduction of anchor tenants and fast food chain stores that enhance the traffic flow and shopping ambiance, the commercial complex at Phase 2 of Shanghai Rui Hong Xin Cheng, which was opened in 2004, fetched a 21% increase in rental income in 2007 over 2006 and its occupancy rate increased to 99% at the end of 2007 (31 December 2006: 86%).

In February 2008, the Group completed the acquisition of the retail podium together with other leasable areas aggregating 13,000 sq.m. of GFA at Rui Hong Xin Cheng Phase 1 from Shui On Group for a cash consideration of RMB107 million, which has been negotiated at arm's length based on the appraised value of the property by an independent valuer as of 31 December 2007. Following completion of the acquisition, the Group now controls the entire Rui Hong Xin Cheng development which should further enhance the overall branding and value of this project.

The office space in KIC Village R1 and KIC Plaza Phase 1 of Shanghai Knowledge and Innovation Community, which construction was completed in the second half of 2006, are being filled with tenants, with KIC Village R1 over 30% occupied and KIC Plaza Phase 1 over 80% occupied.

Hangzhou Xihu Tiandi Phase 1 continued to be fully let.

The first phase of the retail space, with a leasable GFA of 12,000 sq.m., in Wuhan Tiandi commenced leasing in April 2007. Approximately 57% of that GFA has been leased and all leased 17 units have begun their business activities in early 2008.

Construction of the retail and service apartment at Lots B1-1/01 and B3/01 of Chongqing Tiandi, with an aggregate GFA of 56,000 sq.m., commenced in July 2007 and has been progressing according to plan. These areas can be expected to be completed towards the end of 2008 for handing over to tenants in 2009.

The occupancy rates of the Group's investment properties as of 31 December 2007 were as follows:

	Occupancy rate	
Investment property	**2007**	2006
Shanghai Xintiandi	**97%**	94%
Shanghai Corporate Avenue	**94%**	98%
Shanghai Rui Hong Xin Cheng, Phase 2 Commercial Complex	**99%**	86%
Shanghai Knowledge and Innovation Community, R1 office	**33%**	9%
Shanghai Knowledge and Innovation Community Plaza Phase 1	**81%**	18%
Hangzhou Xihu Tiandi, Phase 1	**100%**	98%
Wuhan Tiandi, Commercial	**57%**	N/A

The slightly reduced occupancy rate as of 31 December 2007 at Shanghai Corporate Avenue was related to normal void period upon lease expiration when provision was required for reinstatement of premises and fitting out for new tenants. New leases have been signed with replacement tenants and the premises are currently near full occupancy.

Shanghai KIC Village