SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司

(Stock Code: 1207)

ANNUAL REPORT 2007

Contents

Introduction of the Group

SRE Group Limited ("the Company") and its subsidiaries ("the Group") is an integrated real estate developer specializing in property and land development and building construction. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "SEHK") on 10 December 1999.

The Group's real estate business is concentrated in Shanghai, in the PRC, but it has been gradually extending to provincial capitals and regional centers perceived to have strong economic development potential. The property portfolio comprises mainly medium-to high-end housing, but we have made an increasing investment in commercial properties such as office buildings, hotels and shopping malls, with the aim of creating an integrated real estate operation functioning super-regionally.

The Group's property developments "Oasis Garden", "Rich Gate", "Skyway" and "Albany" enjoy a good reputation in Chinese markets such as Shanghai and Shenyang and overseas markets like Hong Kong.

Summary of Results

(Prepared according to accounting principles generally accepted in Hong Kong)

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
		(restated)	(restated)		
Turnover, net	**3,350**	2,621	1,309	601	525
Gross Profit	**637**	1,147	460	137	121
Profit before Taxation	**1,670**	1,103	504	116	47
Taxation	**(642)**	(731)	(167)	(24)	(15)
Profit after Taxation	**1,028**	372	337	92	32
Minority Interests	**(9)**	(318)	(73)	(2)	5
Profit Attributable to Shareholders	**1,019**	54	302	90	37
Dividends	**(96)**	(44)	(69)	(47)	(22)
Earnings per share					
– Basic	**43.80 Cents**	2.91 Cents	18.38 Cents	6.49 Cents	2.66 Cents
– Diluted	**42.61 Cents**	2.91 Cents	17.68 Cents	5.95 Cents	2.64 Cents
Total Assets	**19,622**	10,244	6,083	4,550	2,811
Total Liabilities	**13,039**	7,289	4,508	3,421	1,781
Net Assets	**6,583**	2,955	1,575	1,129	1,030
Cash reserves	**1,939**	1,026	1,396	984	492
Shareholders' funds	**5,800**	2,558	1,445	1,007	905

	Year ended 31 December				
	2007	2006	2005	2004	2003
		(restated)	(restated)		
Return on Equity (%)	**18%**	2%	19.0%	8.9%	4.1%
Current Ratio (times)	**1.59x**	1.49x	1.28x	1.45x	1.44x
Total Liabilities to Shareholders equity	**2.25x**	2.85x	3.23x	3.40	1.97
Net Debt to Shareholders' Funds Ratio (times)	**1.91x**	2.45x	2.23x	2.42x	1.42x

Shi Jian

Chairman of the Board

Dear shareholders,

On behalf of the Board of Directors, I am pleased to present herewith the annual report of SRE Group Limited for the year ended 31 December 2007 ("2007 Financial Year").

Financial Summary

During the 2007 Financial Year the Group registered net turnover of around HK3,350 million, which represents an increase of around 28% compared with 2006. Real estate property development accounted for around 96% of our turnover. Profit attributable to shareholders amounts to HK$1,019 million, a sharp increase compared with HK$54 million in 2006. Earnings per share were HK$43.80 cents on a weighted average basis or HK$42.61 cents on a diluted average basis.

Dividends

The Board of Directors proposed a final dividend of HK$0.035 per share.

Business Review

2007 was the second year of the PRC government's eleventh five year plan. This establishes scientific development as the key concept, with the result that the country is increasingly focusing on enhancing investment efficiency and improving industrial infrastructure so as to realize socially acceptable development through a balance between speed, quality, efficiency and environmental issues.

In fact during the course of this year the PRC government has not shifted from its objective of tightening macro-economic controls, which has had a direct impact on land supply, loans and taxation, resulting in a more rational and healthy development of the property market. As a consequence the market is expected to continue to rise moderately into the future. We can certainly expect to see integration in the sector and there will be a further increase in the concentration of market and industry.

With this forecast as our guiding light the Group is to place heightened emphasis on strategic planning and market development. We are to step up sales campaigns in an effort to reduce inventory and thus accelerate our cash return in our aim to reduce financial costs, and at the same time we plan to adopt a cautious approach to overseas investment so as to ensure sustainability in our development.

Property Sales

During the year the Company's project affiliates launched several major property projects at auspicious moments. Capitalizing on the rising market trend for a good six months, we redoubled our sales efforts and improved on our distribution channels with the aim of accelerating the return on capital. A total floor area of 233,144 m^2 was sold, involving some HK$3,252 million. Included in these figures were:

Albany Oasis Garden: Further progress was made during the year following the outstanding sales recorded in 2006. As at 31 December 2007 a total floor area of 12,395 m^2 had been sold amounting to some HK$257 million.

Shanghai Rich Gate: We adopted special sales tactics in order to attract high-class customers, and we achieved breakthrough sales. As a result the average sale price for the year was approximately HK$75,103 per m^2, with the highest even reaching approximately HK$123,457. As at 31 December 2007 a total floor area of 1,927 m^2 had been sold for some HK$147 million.

Thousand Island Oasis Garden: The project's unique natural environment and highly-sought-after villas have been extremely well received by the market, which led to an increase in its value. As at 31 December 2007 a total floor area of some 48,214 m^2 had been sold for an impressive HK$633 million.

Cedar Oasis Garden: This is officially a medium-class project, but it is equipped with top-class fixtures and fittings. Its gentle white French decoration, as well as the highly personalized and environmentally friendly features, have proved very popular in the market. As at 31 December 2007 a total floor area of some 71,944 m^2 had been sold and accounted for HK$700 million.

Beverly Oasis Garden: Our redoubled efforts on these luxury houses were not in vain. Indeed as property prices skyrocketed, villas like these became rare and thus in great demand. As at 31 December 2007 a total floor area of some 12,360 m^2 had been sold for a significant HK$323 million.

Jiangnan Oasis Garden: With its special design phase II of Jiangnan Oasis Garden, known as Jiangnan Rich Gate, performed better than expected in 2007, registering a top sale price of HK$51,440 per m^2. As at 31 December 2007 a total floor area of some 11,564 m^2 had been sold, amounting to an impressive HK$270 million.

Central-Ring Centre: This development became another talk-of-the-town property rather like Lakefront Oasis Garden, and was completely sold out. As at 31 December 2007 a total floor area of some 32,864 m^2 had been disposed of, reaping HK$521 million.

Skyway Oasis Garden: As at 31 December 2007 a total floor area of some 1,519 m^2 had been sold at a total price of HK$43 million.

Shenyang Rich Gate: This was our first property development outside Shanghai. It proved possible to produce outstanding sales as a result of our innovative concept and flexible strategy. Fully furnished apartments in Phase I were relaunched in August 2007, and in fact by September the first and third buildings were basically all sold. As at 31 December 2007 a total floor area of some 40,357 m^2 had been sold at a value of HK$358 million.

Property Investment

Retail area at Shanghai Rich Gate: This is a top class property in a superior location, so with the help of our special promotion strategy encapsulating customized personal luxury we have been able to attract international brands as anchor tenants. As at 31 December 2007 all shops had been leased, with average initial rental of HK$26 per m^2 per day, while the highest rental amounts to HK$36 per m^2 per day.

Shenyang Rich Gate Shopping Mall: With gross floor area of 240,000 m^2 this is the largest American-style shopping mall in northeast China, boasting integrated shopping, eating, leisure, entertainment and culture. Most of the shops have been leased out and the mall is expected to commence operation in 2008.

Landis Skyway Hotel: This hotel launched inaugural operation on 28 April 2007. So far everything has been going smoothly, and the hotel is receiving increasing market recognition.

Land Bank

Although the PRC government tightened its land supply policy during 2007, 19 parcels of land covering 461 lots of transferred state-owned land were offered for sale, among which residential properties (including multiple use) accounted for 7.01 million m^2 with gross floor area exceeding 10 million m^2, meaning that the year evidenced the highest supply of land for residential purposes in Shanghai since 2004.

At the beginning of 2007 Shanghai Anderson Fuxing Land Co. Ltd, a subsidiary of the Company, secured land-use rights over lot A3-2 at Luodian North European Town. The land covers an area of approximately 120,000 m^2, with gross floor area roughly the same at 120,000 m^2.

A capital injection from our largest shareholder in mid 2007 saw 100% of the equity of Konmen Investment Limited invested in the Company, so that the Company now indirectly owns a 70% interest in Real Estate Development Co. Ltd of the Logistics Group of Liaoning Gaoxiao. This latter possesses a land bank of approximately 160,000 m^2 and property development rights for a planned floor area exceeding 1 million m^2. Their sites are to be found in Heping district in the city of Shenyang, right next to the famous Northeast University, which is a prime site ideal for city center commercial and residential use.

In late 2007 Shanghai Zhufu Property Development Co. Ltd., another subsidiary of the Company, acquired the equity of Shanghai Liangshi Industrial Co. Ltd, and became the 99% indirect owner of Shanghai Mengshan Real Estate Co. Ltd and the development rights for a project in Jinshan district with land of 35,852 m^2 and floor area of 89,000 m^2. The project is located in Bishui Jinsha-City Beach, which is the most scenic location in the Yangtze River delta, since it has a coastline of about two km, meaning prime property built there will have a marvelous sea view.

At the end of the year the Group were developing in excess of ten real estate projects with floor area of approximately 4 million m^2. This would be sufficient to keep us occupied for the coming 3 to 5 years.

Relocation Work

Relocation and resettlement for local residents is critical to the success of property developments. 2007 saw the Group working hard with the aid of related companies and strong local government support in terms of unifying reason and action and promoting mutual help and self improvement. In this way the Group was able to function as coordinator for a number of sectors and arranged resettlement so as to ensure a stable and peaceful community, at the same time enabling them to make active progress in the relocation work.

Relocation work for Albany Oasis Garden under Shanghai Shuo Cheng Real Estate Ltd comprises east and west portions. The east one extends from Baotong Road in the east to Zhongxing Road and Lufeng Road in the south, and from Tongge Road, Gongxing Road and Zhiyuan Road in the west to Tiantongan Road in the north. 2007 saw successful relocation of 330 households here, raising the aggregate number of families relocated to 4,432, accounting for 81% of the total number of required relocations. Further five companies were relocated as part of a total of 101 such enterprises, accounting for 82% of the total.

Shanghai Qinhai Real Estate Co. Ltd focused on relocation for the south portion of Qinhai Oasis Garden, relocation work formally commencing in September 2007. As at December 21 relocation for 188 residents (holding certificates of house ownership or leasing rights) had been completed, accounting for 25% of the total required. The relocation area measured 4,175 m^2 and relocation of businesses has also commenced.

Construction Projects

Guided by the slogan "Creating new homes for comfortable living", the Group implemented its quality products strategy. 2007 saw construction proceeding smoothly, and the main projects were:

Central-Ring Centre: Completion of external curtain wall work on eight blocks; completion of Blocks 4, 5, 8 and 9 of the commercial buildings and Block 7 of the office towers; completion of Block 3 and preparation for inspection and approval; completion of initial decoration in Blocks 1 and 2 of the office towers, and completion of 95% of water and electricity fittings, fire prevention and electrical wiring; completion of construction of the underground garage with inspection and approval achieved.

Cedar Island Oasis Garden: Lot B sections 2.1, 2.2 totaling 140,000 m^2 was completed on schedule in April and June respectively. Work on section 2.3 began in the second half. Landscaping for the two sections was completed on schedule. Complete decoration of some 120,000 m^2 residential apartments was carried out during the year, and complete decoration of 746 units was achieved.

Thousand Island Oasis Garden: In November 2007 94 villas in phase III and the clubhouse passed inspection and approval, and construction was completed on superior landscaping in phase III and on nine show houses.

Albany Oasis Garden: Construction, inspection and approval of three blocks of phase I plot D were completed smoothly and they were delivered for occupancy on August 30 and October 30. Construction of the clubhouse, the real estate sales office and shops in four blocks facing the street was completed and they were delivered for occupancy. Community greening passed inspection and approval. Preparation work for the plot C project in Phase II was also completed.

Jiangnan Oasis Garden: Construction of 33 villas in phase II was completed as scheduled. Furthermore landscaping was further improved, so optimizing the landscape quality and ecological environment in the whole residential development.

Shenyang Rich Gate: The topping-out of the shopping center with floor area of 240,000 m^2 and service apartment of some 130,000 m^2 and the office tower of about 19,000 m^2 in phase I was finalized together with equipment installation in the shopping mall.

Chairman's Statement

Property Management

Management of the Company's properties is primarily undertaken by its subsidiary, Shanghai Real Estate Property Management Company Limited ("SREP"). In addition the Group engages famous international property management companies for this purpose, so as to maintain a good brand image for the Group.

SREP has been awarded the top PRC qualification for property management and it provided management for eight Group residential developments in Shanghai and at Shenyang Rich Gate. The total area of properties under SREP management increased to 2,000,000 m^2 in 2007 from 1,000,000 m^2 in 2006.

The SREP journal and website have set up an interactive information sharing system for owners of buildings managed by them. This "EPMS Information System for Property Management" improved on the remote information monitoring system, which itself had been acclaimed by property owners.

Restructuring and financing activities

In line with the strategy for development throughout the PRC our business has expanded outside Shanghai. The Company changed its name to SRE Group Limited from Shanghai Real Estate Ltd in March in order to reflect this diversified business.

In September the Company's main shareholder injected capital into the Group, resulting an increase to the land bank and an enhanced capital base.

On 14 November 2007 China New Town Development Company Limited ("CNTD"), an associated company of SRE Group Limited, was spun off and listed on the Singapore Securities Exchange. This entity has taken responsibility for the Group's new town development business, covering planning and design, relocation and resettlement, land formation and infrastructure for new towns. The acceleration of urbanization in China means that CNTD has very good prospects.

The Group's Awards

2007 saw the Company and its subsidiaries and associated companies receive major awards as follows:

Shanghai Anderson Fuxing Land Co. Ltd.: Its Shanghai Rich Gate project was awarded the 2007 China Construction Luban Prize, the top construction prize in China.

Shanghai Shuo Cheng Real Estate Ltd: All its three residential blocks of plot D of Albany Oasis Garden were given the Shanghai White Orchid Award. The community received the 2007 Shanghai Four Excellences Quality Community award and the Gold Prize for an Excellent Residential Community.

Shanghai Oasis Garden Real Estate Co. Ltd.: Awarded 2007 PRC Real Estate Brand Leader. Its Cedar Oasis Garden was awarded the PRC Real Estate Brand Leader gold prize and the White Orchid Excellence award.

Shanghai Jinwu Real Estate Co. Ltd.: Its Central-Ring Centre was awarded the Gold Award for the Most Popular Project in Shanghai in 2007, and ranked top in the monthly sales of office towers in the city. It received an excellent award among the major contributors in Shanghai.

Shanghai Hangtou Govern Real Estate Co. Ltd.: Its Thousand Island Oasis Garden was awarded the 2007 Shanghai Quality Community Four Excellences prize.

Shanghai Real Estate Property Management Company Ltd: Acclaimed in the Top 100 Property Management Companies in the PRC in 2007 and as an Excellent Member in the Property Management Industry.

Business Outlook

Economic development in mainland China in 2007 demonstrated continuing strong momentum despite the sustained macro-economic controls.

Preliminary data from the PRC State Statistics Bureau shows GDP for the year was RMB24,661.9 billion, which represents an increase of 11.4% over 2006, and the rate of increase was 0.7% higher. Public investment in fixed assets was RMB13,723.9 billion, an increase of 25.8% over 2006, or 1.8% higher. Investments in real estate development for the year were RMB2,528 billion, an increase of 30.2% or 8.4 % higher than the previous year.

The Work Report on China's 2007 National Economic and Social Development issued by the Bureau of Statistics and approved by the State Statistics Bureau, Shanghai's GDP for the year was RMB1,200.12 billion, an increase of 13.3% over 2006 adjusted figures, heralding the 16th consecutive year of double-digit growth. Included here was tertiary industry output, which was up by RMB622.34 billion or 15.2% from the previous year. Increased tertiary output represented 51.9% of the city GDP. Public investment in fixed assets amounted to RMB445.86 billion, an increase of 13.6% over 2006. Average urban household annual disposable income amounted to RMB23,623, showing an increase of 14.3% over the previous year, and 3.5 % higher than 2006 growth.

Completed real estate investment in 2007 amounted to RMB130.76 billion, representing a 2.5% increase and a 0.2 % higher return than the previous year. The area of residential property under construction was 107.67 million m^2, a decrease of 1.6% over last year. On the other hand completed residential property reached 33.8 million m^2, an increase of 3.2%. The area of residential property sold was 36.95 million m^2, a 22.1% increase. Sales amounted to RMB308.94 billion, an increase of 41.9% over last year. In tandem with all this the purchasing power of urban citizens continued its upward trend.

The total area of residential property sold in Shanghai was 32.79 million m^2, which represented an increase of 25.4% year-on-year. Sales amounted to RMB270.63 billion, an increase of 47% year-on-year. The sale price of residences rose 9.3% year-on-year, which is in line with growing urban purchasing power. The average rental for Grade A Shanghai offices rose to RMB8.6 per m^2 per day, an increase of 10.8% year-on-year. The vacancy rate decreased to a record low of 2.5%. The average monthly rental for medium shopping malls reached USD128 per m^2, an increase of 14.8% year-on-year, and the vacancy rate was below 2.5%. Meanwhile the number of retail commercial properties in new areas showed steady growth. With the population and retail presence increasing exponentially, the prospects for leasing in these areas is extremely promising.

Preparations for the Shanghai World Expo are now full steam ahead. Figures at the end of 2007 show that 187 countries and international organizations had confirmed their participation, which is already a record. Subway and road construction in the city are on schedule to tie in with Expo. The end of 2007 saw seven subway lines in operation, and the Hongqiao transport interchange, which is the largest transport project in Shanghai, will be completed.

Shenyang is one of the Group's main strategic cities, and its property market is maturing. This is shown by three factors: firstly supply of luxury property is on a sustained uptrend, increasing the available number of top residences, while the supply of grade A offices and high quality retail property in the past three years has risen more than 100%; secondly famous developers at home and abroad are increasingly optimistic at real estate prospects in Shenyang, while their participation has provided further momentum to the market; and thirdly sales prices of residential properties in the city have been rising steadily.

According to Jones Lang LaSalle, the famous real estate researcher, economic growth in the Asia Pacific region in 2007 was the highest worldwide, with direct investment in real estate amounting to USD 121 billion, an increase of 27% year-on-year. This momentum of growth is expected to be maintained throughout 2008.

The Group undertakes to make precise judgments on the situation of China's macro economy and evaluate real estate trends. We further undertake to develop our business with an innovative approach and standardized management, to enhance brand awareness and to improve our efficiency, in order to enhance the return on shareholders' investment.

Lastly, I would like to thank our strategic investors and shareholders for their constant trust and support and offer my heartfelt gratitude to all directors, executives of our group companies and staff members for their continuous hard work and loyalty over the year.

Shi Jian
Chairman of the Board

23 April, 2008

Directors and Management

Directors

Executive Directors

Mr. Shi Jian, aged 54, is the Chairman of the Board as well as the founder of the Group. Mr. Shi is responsible for the formulation of the Group's development strategy. From 1986 to 1993, Mr. Shi was an administration manager of Shanghai Rainbow Hotel. From 1993 to 1995, he was the general manager of the Universal Mansion project. Mr. Shi has nearly 20 years' experience in property investment and corporate operation.

Mr. Li Yao Min, aged 57, is the Vice Chairman of the Board. Mr. Li is in charge of the real estate development of the Group. He joined the Group in May 1993. From 1992 to 1993, Mr. Li worked for Shanghai Golden World Commercial Building Co., Ltd as general manager. Mr. Li has over 20 years' relevant management experience in construction, structure, planning and large scale real estate project development.

Mr. Yu Hai Sheng, aged 54, is the Vice Chairman of the Board and Chief Executive Officer of the Group. Mr. Yu is responsible for financing, capital operation and housing technology business of the Group. Mr. Yu obtained a Master of Business Administration from Shanghai University. Mr. Yu joined the Group in 1997. Mr. Yu had been manager of Shanghai Mechanical Engineering Company, factory manager of Shanghai Pioneer Mechanical Engineering Factory and chief of Industrial Planning Bureau of Shanghai Sports Commission. He has ample experience in the installation of electrical, mechanical and networking equipment and management.

Mr. Jiang Xu Dong, aged 44, is an Executive Director and Chief Operation Officer of the Group. Mr. Jiang is responsible for co-ordinating the real estate development business of the Group. Mr. Jiang graduated from Shanghai Tongji University in 1986 specializing in industrial and civil construction, and was awarded a MBA degree afterwards. He joined the Group in 1997. He was a department director of Shanghai Real Estate Administration Bureau between 1986 and 1997. Mr. Jiang has nearly 20 years' experience in property development and operation management.

Mr. Lee Wai Man, Benson, aged 52, is an Executive Director and Chief Financial Officer of the Group. Mr. Lee is responsible for overseeing corporate development and financial matters of the Group. He joined the Group in 2007. Mr. Lee obtained a Bachelor degree from the Chinese University of Hong Kong majoring in Economics in 1981. He also obtained a Master of Business Administration from the Geogia State University in 1983. He has over 20 years of experience in the financial industry. From 2001 to 2007, Mr. Lee was Senior Vice President and Head of China corporates for CITIC Ka Wah Bank.

Non-executive Directors

Mr. Cheung Wing Yui, aged 58, is a Non-executive Director of the Company. Mr. Cheung has been a practicing lawyer in Hong Kong since 1979 and admitted as a solicitor in the United Kingdom and as advocate and solicitor in Singapore. He is currently a consultant of Messrs. Woo, Kwan, Lee & Lo, Solicitors and Notaries, and a member of the Council of the Open University of Hong Kong.

Mr. Jin Bing Rong, aged 59, is a Non-executive Director of the Company. Mr. Jin received a bachelar's degree from Fudan University in Shanghai in 1984. Mr. Jin has over 20 years of experience in the banking industry and was the former Chairman of the Shanghai branch of Agricultural Bank of China. Mr. Jin has been with the Agricultural Bank of China since 1984 and has served as the Chairman of its branches throughout various districts in Shanghai during his 20-plus year career.

Independent Non-executive Directors

Mr. Yeung Kwok Wing, aged 60, is an Independent Non-executive Director of the Company. Professor Yeung is presently Executive Director of Clothing Industry Training Authority. Professor Yeung obtained his Ph.D degree from Queen's University of Belfast, Northern Ireland. He is a senior fellow of the Textile Institute of UK, a senior fellow of the Hong Kong Institution of Textiles and Apparel and a senior fellow of the Society of Dyers and Colorists of UK.

Mr. Geng Yu Xiu, aged 71, is an Independent Non-executive Director of the Company. He is currently the Vice President of Shanghai Urban Planning Association and senior engineer of professor grade. Mr. Geng had been the Chief Planner and Chief Consulting Engineer of Shanghai Urban Planning Bureau. He is a well-known senior urban planner in Shanghai.

Mr. E. Hock Yap, aged 52, is an Independent Non-executive Director of the Company. Mr. Yap graduated from Sheffield University with a bachelor of science degree in Chemical Engineering. He is a member of the Institute of Chartered Accountants in England. Mr. Yap has over 25 years of financial and accounting management, banking and investments experience.

Company Secretary

Ms. Lee Wai Yee, Yolanda, aged 34, is the Company Secretary and Financial Controller of the Company. Ms. Lee joined the Group in 2006. Ms. Lee graduated from the Hong Kong Polytechnic University with a bachelor degree in Accountancy. She has over ten years of experience in accounting and finance and is a member of the Associated of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Lee is responsible for the finance, accounting and company secretarial functions of the Group.

Business of the Group

During calendar 2007 the real estate market in mainland China generally delivered a steady performance, with occasional increases in price, but it did experience a reduction in sales volume towards the end of the year. This occurred against the background of ongoing macro-economic state control measures, such as constraints on land supply and the imposition of loan, tax and miscellaneous policies. It must be admitted that performance depended largely on the type of property, but as far as office and other commercial properties are concerned, these experienced outstanding improvement in both rental and occupancy

Apartments

In Shanghai in 2007 the floor area of private residential property transactions rose quite significantly. The index compiled by E-House China speaks of a total 170,638 units with a combined floor area of 20,960,000 m2 transacted during the year, which represents an increase of 1.39% over 2006. The total of private residential housing coming on to the market during the year amounted to a floor area of 13,965,600 m2, evidencing a demand/supply ratio of 1:0.67.

Urban renewal continued to make steady, although rather reduced progress in 2007. In this light 6,900,000m2 were demolished, which represents a decrease of 18.7% over the 2006 figure, and in a similar way relocated residents amounted to 49,000 households, representing a decrease of 36.1% over the previous year. The year saw comprehensive renovation of outdated property completed for a floor area of 10,000,000 m2. In this way by the end of the year in urban and rural areas the residential construction area per capita was 32.2 m2, which raised the livable area per capita to 16.5 m2.

Benefitting from the impetus of growing demand for owner-occupied and investment properties, the residential market in Shanghai continued its boom with record prices recorded. In its annual review of the Shanghai residential market for 2007 DTZ Debenham Tie Leung Ltd. states that the average residential selling price broke through the RMB 10,000 per m2 threshold to set a new record high.

Villas

The latest figures show that transactions of Shanghai villas totaled 2,705,900 m2 in 2007, 22% higher than the year before, while the average price of RMB 14,173 per m2 signaled an increase of 6.0% over the same period. The villa market in fact performed well right across the spectrum from economy to deluxe, and a general upswing in price was generated by the scarcity of villa properties.

Commercial real estate

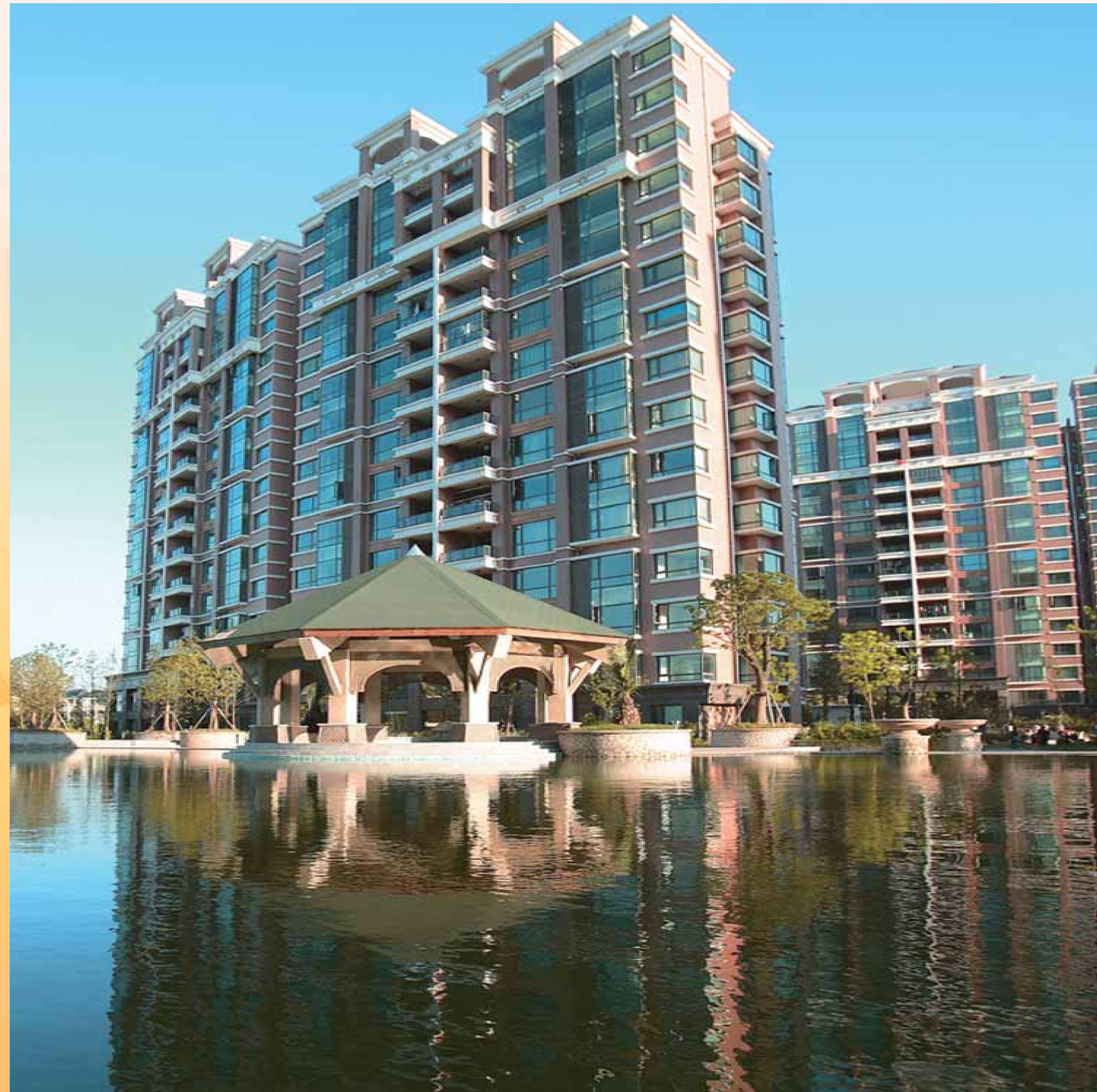
2007 saw continued robust development in Shanghai commercial real estate under the double pressures of strong economic growth and market expectation of an appreciation in the RMB.

The huge pent-up demand from international and domestic businesses seeking to expand and newly established operations exerted upward pressure on the office market, with an insatiable demand for financial service providers and other professionals. The latest data from Colliers International shows that corporate expansion and newly established operations actually accounted for a total of 263,000 m2 of offices, which amounted to an excessive115.6% of the total completed Grade A office floor area for the year, which was only 227,100 m2. This mismatch between supply and demand caused the office vacancy rate to fall below its previous record low of 2.5%.

Rentals in the office market continued to rise under the inexorable demand for expansion by a large number of multinationals, in particular financial institutions. This is borne out by recent figures published by Savills, who says that the 2007 average Grade A office rental increased 10.8% over the previous year, reaching RMB 8.6 per m2 per day.

Shanghai was blessed with robust demand and scarce supply, which led to investment activities in office buildings being extremely active, with several acquisitions of entire office buildings being recorded. Surveys report that 2007 saw acquisitions of entire office buildings reach a total area of 560,000 m2, which meant the price per m2 increased 26.2% over the previous year.

All these factors, spearheaded by the rapid growth of the national economy, expectations of RMB appreciation and the prosperous retail market, explain the strong performance of the Shanghai retail property market. According to research recently published by Colliers International, the end of 2007 saw average rental reach US$128 per month per m2 for ground floor shopping centre space, which amounted to an advance on the previous year of 14.8%. As mentioned above a number of famous international brands sought to expand, boosting demand for retail property in the city centre, and when this was combined with the continued robust rental situation for traditional businesses, the vacancy rate fell below 2.5%. Given this very positive atmosphere it is no surprise that new retail properties performed well and attracted increasing attention across the board, so in view of the forecast population increase locally and the increased activity of retailers, it is logical to conclude that retail property rental will remain buoyant and rapidly increase into the future.



Project/Type : **Long Island Oasis Garden/ Cedar Island Oasis Island/ Residential**

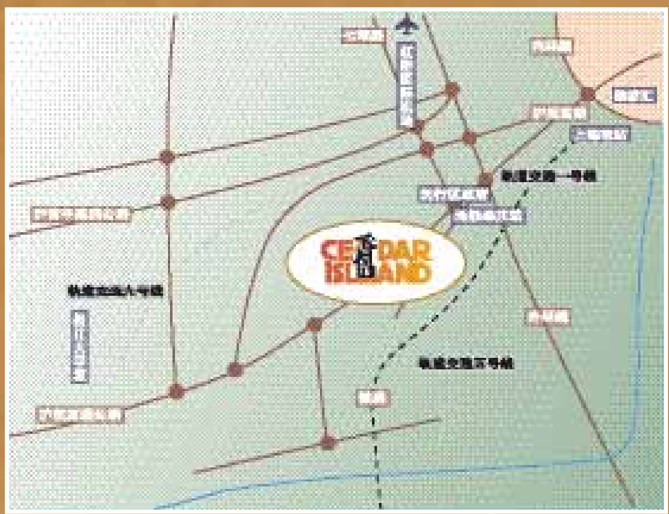
Location : Song Jiang District/South-West, Shanghai

Site area : 750mu (497,000m^2)

GFA : 542,317m^2

Address : 1288 Alley, Hua Song Road, Jiu Ting Town, Song Jiang District, Shanghai, the PRC Shanghai, the PRC

Area Use:	GFA (sqm)	Date of Commencement	Completion Date
Phase I	96,587	2000/5	2002
Phase II	45,730	2002/6	2003
Phase III (1)	29,320	2003/12	2005
Phase III (2-A)	25,390	2003/12	2005
Phase III (2-B)	51,823	2004/8	2006
Phase III (2-C)	130,767	2005/6	2007
Phase III (2-D)	162,700	2007	2009



Project/Type : **Beverly Oasis Garden/ Residential**

Location : Song Jiang District/South-West, Shanghai

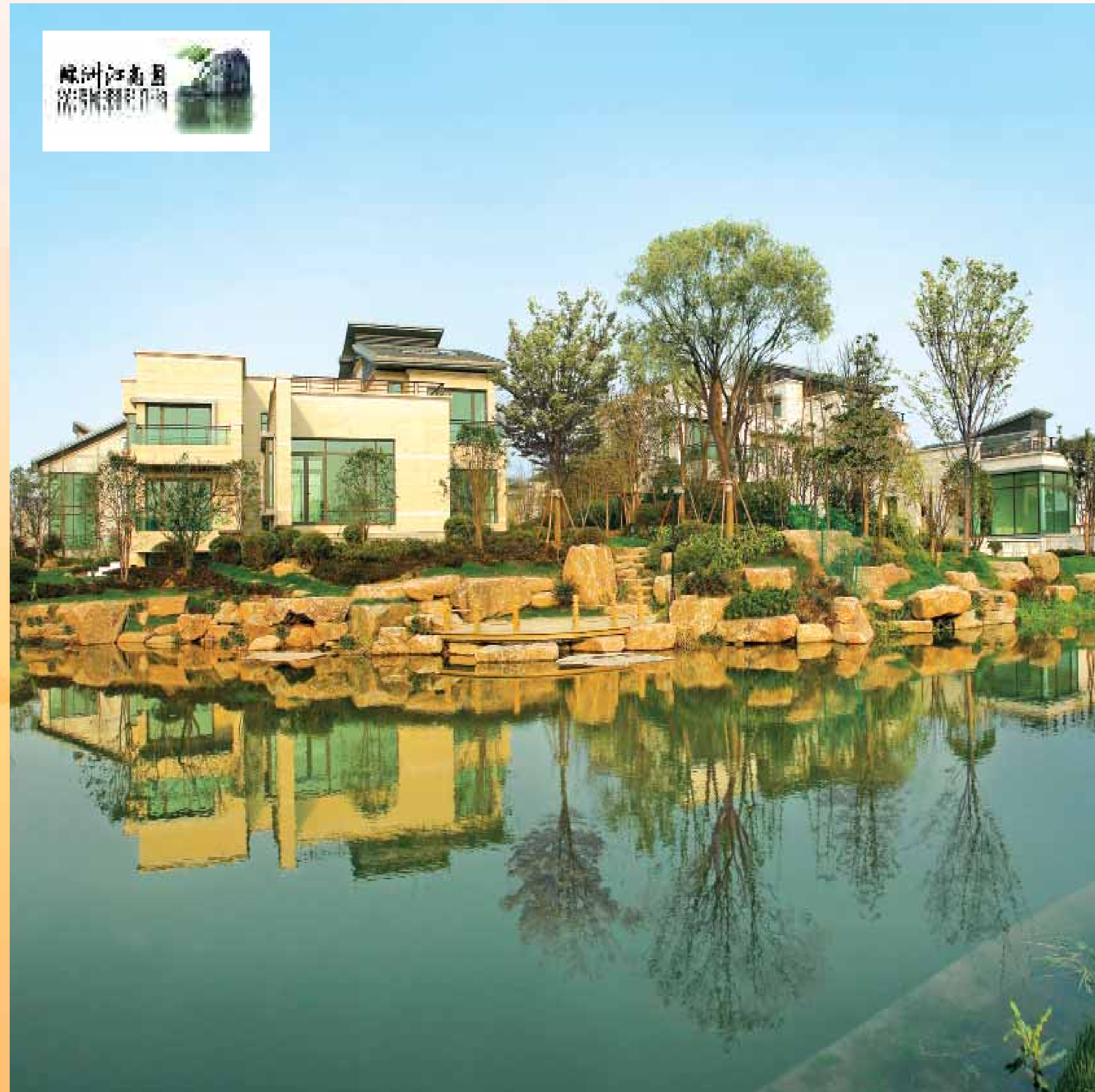
Site area : 1,250mu (829,000m^2)

GFA : 199,827m^2

Address : Phase 1 : No. 366, Ming Hua Road, Xin Qiao Town, Song Jiang District, Shanghai, the PRC

Phase 2 : Xin Qiao Town, Song Jiang District, Shanghai, the PRC

Area Use	GFA (sqm)	Date of Commencement	Completion Date
Phase I	115,187	1998/8	2002
Phase II	68,595	2001/12	2004
Phase III	16,045	2004/9	2006



Project/Type : **Jiang Nan Oasis Garden/ Residential**

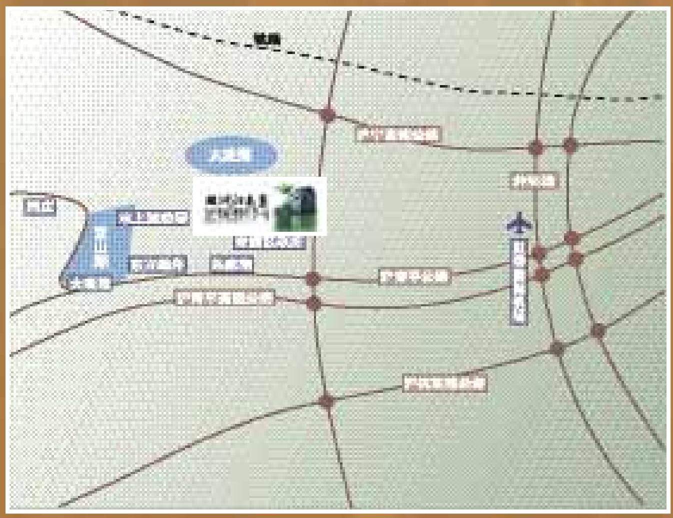
Location : Qing Pu District/West, Shanghai

Site area : 477mu (316,000m²)

GFA : 59,531m²

Address : No.6 & 18-1, Nan Gang Chuen, Zhu Jia Jiao Zheng, Qing Pu District, Shanghai. PRC.

Area Use:	GFA (sqm)	Date of Commencement	Completion Date
Phase I	35,954	2002/9	2004
Phase II	23,577	2005/4	2006



Project/Type : **Thousand Island Oasis Garden/ Residential**

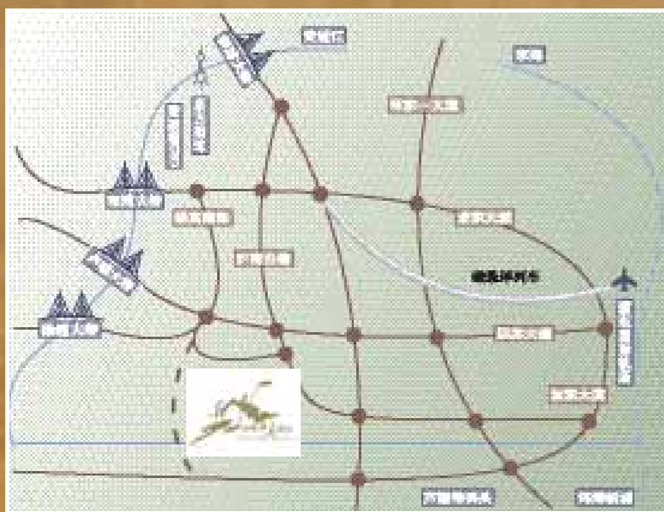
Location : Nan Hui District/South-East, Shanghai

Site area : 600mu (398,000m^2)

GFA : 102,115m^2

Address : Hangtou Center in Nan Hui District, Shanghai, P.R.C

Area Use:	GFA (sqm)	Date of Commencement	Completion Date
Phase I	10,648	2003/5	2004
Phase II	38,267	2004/5	2005
Phase III	53,200	2006/3	2007



Project/Type : **Shanghai Rich Gate/ Residential & Retail**

Location : Lu Wan District/Down Town Area, Shanghai

Site area : 22mu (14,651m^2)

GFA : 52,172m^2

Address : No.222, Ma Dang Road, 39 Lu Wan District, Shanghai, P.R.C.

Area Use	GFA (sqm)	Date of Commencement	Completion Date
Residential	40,860	2002/5	2006
Retails	11,312	2002/5	2006

ALBANY OASIS GARDEN

Project/Type : **Albany Oasis Garden/Mixed**
Location : **Zhabei District/Down Town, Shanghai**
Site area : **309mu (206,010m^2)**
GFA : **480,000m^2**
Address : **No.699 Zhong Xing Road, Shanghai, P.R.C.**

Area Use: Residential	GFA (sqm)	Date of Commencement	Completion Date
Residential Phase I	75,000	2005/3	2007
Residential Phase II	50,000	2008	2009
Residential Phase III	205,000	2009	2010
Facilities	10,000	2009	2011
Retails	40,000	2009	2011
Office	50,000	2009	2011
Hotel	50,000	2009	2011

Project/Type : **Central-Ring Center/Mixed**

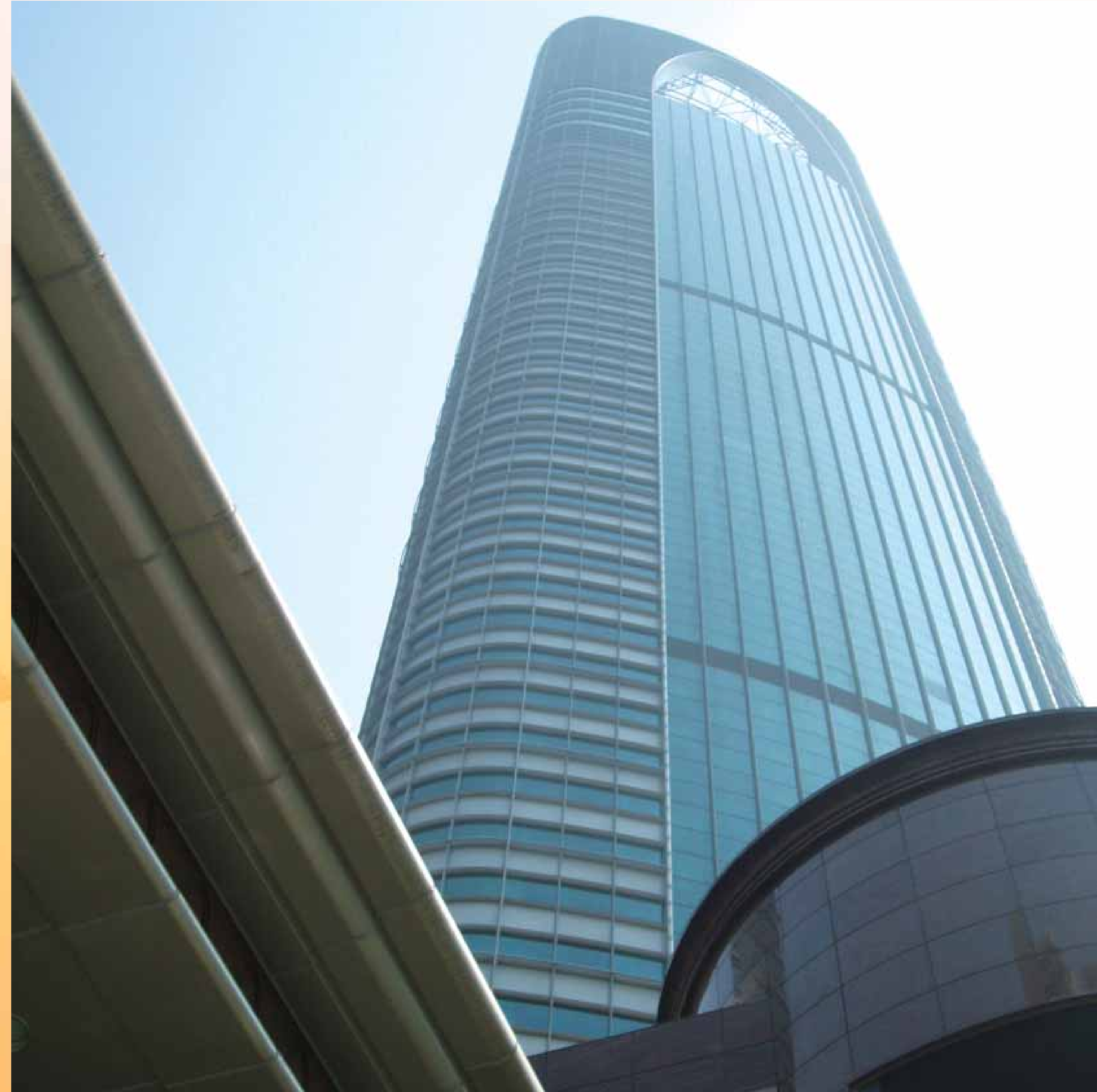
Location : **Putuo District/Down Town, Shanghai**

Site area : **112mu (74,268m^2)**

GFA : **321,637m^2**

Address : **No.801, Jun Bei Road, Putuo District, Shanghai, P.R.C**

Area Use: Residential	GFA (sqm)	Date of Commencement	Completion Date
Residential Phase I	47,822	2002/7	2005
Residential Phase II	18,155	2002/7	2006
Office	28,582	2006	2007
Facilities	77,000	2004	2007
Retail	30,466	2004	2007
Office	91,030	2006	2008
Hotel	28,582	2008	2010



Project/Type : **Skyway Landis Hotel**

Location : **Lu Wan District/Down Town Area, Shanghai**

Site area : **21mu (14,279m²)**

GFA : **100,761m²**

Address : **Lot B &C, 53 Alley, Da Pu Road, Lu Wan District, Shanghai, P.R.C.**

Area Use	GFA (sqm)	Date of Commencement	Completion Date
Hotel	100,761	2003/6	2007


方案二总

Project/Type : **Qinhai Oasis Garden/ Residential and commercial**

Location : **Huang Pu District/Down Town Area**

Site area : **56mu (37,129m^2)**

GFA : **194,576m^2**

Address : **717–719 Jie Lane, Huang Pu District, Shanghai, P.R.C.**

Area Use: Residential	GFA (sqm)	Date of Commencement	Completion Date
Residential	59,185	2008	2011
Commercial	70,391	2008	2011
Facilities	65,000	2008	2011

A1-3
61/1.2
A2-2
102/1.2
D1-2/D2-2
348/1.2
A3-2
180.91/1.0
D1-3
143.22/1.2
D2-3
175.43/1.2
F1-1
169/0.5
A-1
139/1.6
A2-3
47.49/1.2
A1-4
26.42/1.2
D-1
106/0.31
A-3
105/0.8
D-2
23/0.31
B-1
70/0.5
E3-3
146.16/0.5
F1-3
157/0.5
E4-1
53/0.5
B1-5
34/0.2
C-2
26/0.8
E-1
15/0.35
B-2
124/0.5
C1-2
71.64/0.3
C2-1
174.88/1.2
C3-3
134.1/1.02
E-2
61/0.35
F1-5
156/0.5
C5-2
160.22/1.2
E-3
132/0.35
C4-2
127.86/1.2
C5-3
213/1.2
B-3
55/1.2

Project/Type : **Rich Gate Mansion (Tentative name)/Residential**

Location : **Baoshan District/Northeast, Shanghai**

Site area : **180.89mu (120,594.8m^2)**

GFA : **118,000m^2**

Address : **Lot A3-2, Luodian New Town, Baoshan District, Shanghai**

Area Use: Residential	GFA (sqm)	Date of Commencement	Completion Date
Residential	118,000	2008	2010

Project/Type : **Rich Gate Sea View/Residential**

Location : **Shanyang Town/Southwest, Jinshan District, Shanghai**

Site area : **54mu (35,852m^2)**

GFA : **107,000m^2**

Address : **Lot 151/2, Haiguang Village, Shanyang Town, Jinshan District, Shanghai**

Area Use: Residential	GFA (sqm)	Date of Commencement	Completion Date
Residential	89,000	2008	2010
Facilities	18,000	2008	2010

Project/Type : **Shenyang Rich Gate - Phase 1/Mixed**

Location : Shenyang, Liaoning/Down Town Area

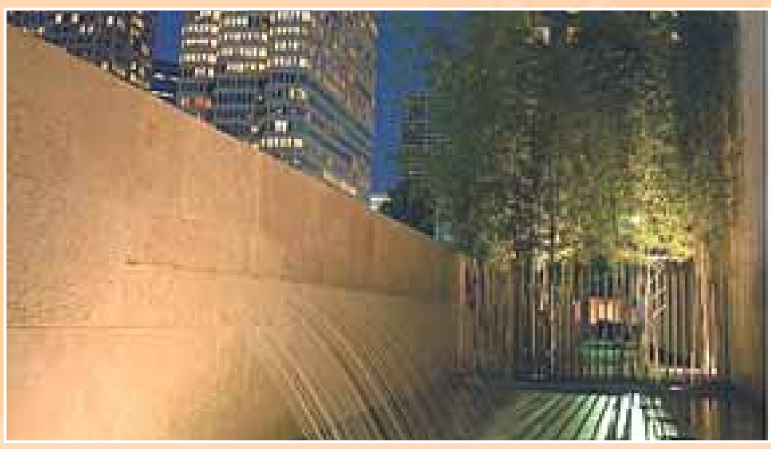
Site area : 75mu(49,913.1m^2)

GFA : 391,246m^2

Address : No. 2003-059 land in Financial Development Zone of Shenyang North Station

Area Use: Residential	GFA (sqm)	Date of Commencement	Completion Date
Service apartment	132,394	2005/7	2007
Office	18,852	2005/7	2007
Retails	240,000	2005/7	2007


RICHGATE



Project/Type : **Shenyang Rich Gate - Phase 2/Mixed**

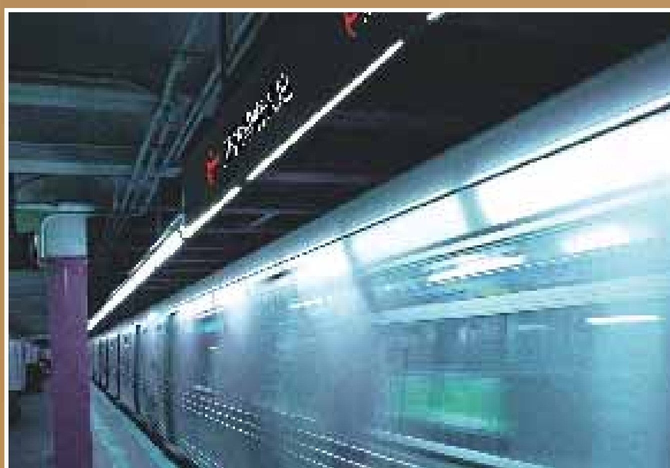
Location : Shenyang, Liaoning/Down Town Area

Site area : 167mu(111,885.6m²)

GFA : 1,510,000m²

Address : No. 2003-059 land in Financial Development Zone of Shenyang North Station

Area Use: Residential	GFA (sqm)	Date of Commencement	Completion Date
Service apartment	210,000	2008	2010
Commercial (Mixed)	1,050,000	2008	2011
Carparks	250,000	2008	2011



Project/Type : **Shenyang Albany/ Residential & Commercial**

Location : Shenyang City/ Downtown, Liaoning Province

Site area : 238mu (158,536.2m^2)

GFA : 1,000,000m^2

Address : Lot 2007-024, Nanda Street, Heping District, Shenyang City

Area Use: Residential	GFA (sqm)	Date of Commencement	Completion Date
Residential	700,000	2009	2015
Commercial (Mixed)	300,000	2009	2015

Financial Review

Turnover and profit attributable to shareholders

In 2007, the Group recorded a net revenue of approximately HK$3,350 million (2006: HK$2,621 million), which increased by approximately 28% compared with that of 2006. Profit attributable to shareholders was approximately HK$1,019 million, a sharp increase compared with approximately HK$54 million in 2006.

Liquidity and Financial Resources

The Group's liquidity position remains strong. As at 31 December 2007, cash and bank balances amounted to approximately HK$1,939 million (2006: HK$1,026 million). Working capital (net current assets) of the Group as at 31 December 2007 amounted to approximately HK$4,789 million (2006: HK$2,190 million), an increase of 119% from previous year. Current ratio was at a healthy level of 1.59x (2006: 1.49x).

As at 31 December 2007, the total liabilities to shareholders equity decreased to 2.25x (2006: 2.85x). At the balance sheet date, the Group's gearing ratio is approximately 52% (2006: 58%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balance of approximately HK$1,939 million) over total capital (equity plus net borrowings).

Management is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, management also believes that the Group is in a good position to obtain financing on favorable terms.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

On 3 November 2006, Mayson Resources Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with the other three joint venture partners of Shanghai Shuo Cheng Real Estate Company Limited ("Shuo Cheng") whereby it agreed to purchase their 55% equity interest in Shuo Cheng at a total consideration of RMB33.48 million. The renewed business licence of Shuo Cheng and the approval from the shareholders of the Company were obtained in January 2007. The transaction was then completed and Shuo Cheng has become a subsidiary of the Company.

On 29 June 2007, Wellton Resources Limited ("Wellton"), a wholly-owned subsidiary of the Company, entered into a conditional transfer agreement (the "Transfer Agreement") with Shanghai Haizhan Investment and Management Company Limited ("Shanghai Haizhan") whereby it agreed to acquire the remaining 49% equity interest in Shanghai Zhufu Property Company Limited from Shanghai Haizhan at a consideration of RMB70 million. At the end of 2007, the completion of the transaction under the Transfer Agreement is subject to the issue of approval, authorization certificate, business licence and filing procedures. Based on a supplemental agreement, the two parties agree to extend the deadline for the fulfillment of these conditions to 30 June 2008.

On 17 August 2007, the Company entered into a conditional sale and purchase agreement with SRE Investment Holding Limited (the "Vendor"), the controlling shareholder of the Company in which Mr. Shi Jian and Mr. Li Yao Min are directors and shareholders, and Goldfull Enterprises Limited (the "Purchaser"), a wholly owned subsidiary of the Company, in relation to the acquisition by the Purchaser of the entire share capital of Konmen Investment Limited at a consideration of HK$1,600 million, which will be satisfied by the Company issuing 526,315,789 new shares of the Company to SRE Investment Holding Limited.

On 14 November 2007, China New Town Development Company Limited ("CNTD"), an associated company of the Group, had its shares listed on the Main Board of the Singapore Exchange Securities Trading Limited. Upon listing, the Group's interest in CNTD was diluted from 49% to 45.15% of the enlarged issued share capital of CNTD.

On 29 November 2007, Elegant Parkview Limited (the "Vendor"), a substantial shareholder of Shenyang Huarui Shiji Asset Management Company Limited and Shenyang Huarui Shiji Investment Development Company Limited, both of which are 51% owned subsidiaries of the Company, China Edifice Ltd. (the "Purchaser") and China Edifice Holdings Ltd. ("China Edifice"), both are wholly-owned subsidiaries of the Company, entered into a conditional sale and purchase agreement (the "Agreement") whereby the Purchaser agreed to purchase and to take assignment of the entire equity interest and the outstanding loan of USD4.9 million of Qualico Investments Limited for the aggregate consideration of HK$1,987 million, which shall be satisfied by China Edifice issuing at the direction of the Vendor 3,496 shares to Mr. Ng Chi Ming and 304 shares to Pinpoint China Fund, both being the existing shareholders of the Vendor. As agreed by the Vendor, the Purchaser and China Edifice, the conditions fulfillment date as described in the Agreement has been extended to 30 June 2008. At the end of 2007, the completion of the transaction was subject to shareholders' approval, the issue of approval, authorization certificate, business licence and filing procedures.

Employees

As at 31 December 2007, the Group had retained 1,940 (2006: 1,330) employees in Hong Kong and the PRC. Total staff costs of the Group, excluding directors' remuneration, for the year under review amounted to approximately HK$61.61 million (2006: HK$49.21 million). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of individual employee.

Charges on Assets and Contingent Liabilities

At the balance sheet date, total bank loans of approximately HK$3,357 million (2006: HK$1,318 million) were secured by pledge of the Group's leasehold land, together with properties underdevelopment for long-term investment and properties held or under development for sale. Details of which are set out in note 32 to the financial statements.

As at 31 December 2007, the Group had no contingent liabilities (2006: HK$58 million) in respect of guarantees to assist home buyers to obtain mortgage loans from banks and complete mortgage procedures, and no contingent liabilities (2006: HK$35 million) in respect of a guarantee to assist an associated company to secure banking facilities. Details of which are set out in note 41 to the financial statements.

Report of the Directors

The directors have pleasure in submitting the annual report together with the audited financial statements of SRE Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2007.

Principal Activities

The Group is a reputable integrated property developer in Shanghai. The Group's brand name "Oasis Garden" enjoys good reputation both at home and abroad.

Turnover and contribution to profit before taxation of the Group are derived mainly from sale and presale of properties in the People's Republic of China.

Segmental Information

Details of the Group's turnover and contribution by principal activity and geographical area for the year ended 31 December 2007 are set out in note 5 to the financial statements.

Results and Appropriations

Details of the Group's results for the year ended 31 December 2007 are set out in the consolidated profit and loss account on page 56. No interim dividend was recommended by the Board of Directors of the Company. The Board of Directors recommends a final dividend of HK$0.035 per share for the year ended 31 December 2007.

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 32 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 31 to the financial statements.

Distributable Reserves

As computed in accordance with The Companies Act 1981 of Bermuda, the total amount of reserves of the Company available for cash distribution was approximately HK$98 million (2006: HK$190 million negative reserve (restated)) as of 31 December 2007. The share premium account with a balance of approximately HK$3,683 million (2006: HK$1,828 million) may be distributed in the form of fully paid bonus shares.

Pre-Emptive Rights

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

Purchase, Sale and Redemption of Shares

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2007.

Fixed Assets and Investment Properties

Details of the movement in fixed assets and investment properties of the Group are set out in notes 17 and 18 respectively to the financial statements.

Related Party Transactions

Details of the Related Party Transactions of the Group for the year ended 31 December 2007 are set out in note 46 to the financial statements.

Directors

The directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Shi Jian
Mr. Li Yao Min
Mr. Yu Hai Sheng
Mr. Jiang Xu Dong
Mr. Lee Wai Man (appointed on 25 September 2007)

Non-executive Directors

Mr. Cheung Wing Yui
Mr. Jin Bing Rong (appointed on 1 April 2007)

Independent Non-executive Directors

Mr. Yeung Kwok Wing
Mr. Geng Yu Xiu
Mr. E. Hock Yap

The Company had received confirmation from each of the independent non-executive directors of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange and considered all independent non-executive directors to be independent.

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Bye-laws of the Company, Mr. Shi Jian, Mr. Jiang Xu Dong, Mr. Lee Wai Man and Mr. E. Hock Yap will retire at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

Directors' Emoluments

Details of directors' emoluments are set out in note 11 to the financial statements.

Directors' Service Contracts

As at 31 December 2007, each of the following Directors had entered into a service contract with the Company, the terms and conditions of which are set out below:

Director	Term of Service Contract	Fixed Annual Remuneration (in HK$)	Compensation for termination
Executive Director			
Shi Jian	1 July 2007 to 30 June 2010	2,000,000	6 months' salary
Li Yao Min	1 July 2007 to 30 June 2010	1,500,000	6 months' salary
Yu Hai Sheng	1 July 2007 to 30 June 2010	2,500,000	6 months' salary
Jiang Xu Dong	1 July 2007 to 30 June 2010	2,000,000	6 months' salary
Lee Wai Man	25 September 2007 to 24 September 2010	2,200,000	6 months' salary
Non-executive Director			
Cheung Wing Yui	1 July 2007 to 30 June 2008	300,000	1 months' salary
Jin Bing Rong	1 July 2007 to 30 June 2008	300,000	1 months' salary
Independent non-executive Director			
Yeung Kwok Wing	1 July 2007 to 30 June 2008	150,000	1 months' salary
Geng Yu Xiu	1 July 2007 to 30 June 2008	120,000	1 months' salary
E Hock Yap	1 July 2007 to 30 June 2008	200,000	1 months' salary

Each Director is entitled to an annual bonus under the relevant service contract, the amount of which is to be determined by the Board from time to time (which shall not be more than 10% of the Company's profit after taxation and minority interests in any event).

Save as disclosed above, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation).

Directors' and Chief Executives' Interests in Equity or Debt Securities

As at 31 December 2007, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in Shares

Name of Director	Personal Interests	Family Interests	Corporate Interests	Total	Approximate Percentage of Shareholding
Shi Jian	2,076,814	2,147 (Note 1)	1,206,827,168 (Note 2)	1,208,906,129	44.16%
Li Yao Min	2,147	–	–	2,147	0.0001%
Yu Hai Sheng	1,065,914	–	–	1,065,914	0.04%

Notes:

1. These shares were held by Ms. Si Xiao Dong, the wife of Mr. Shi Jian.

2. These Shares were held by SRE Investment Holding Limited (formerly known as "Good Time Resources Limited"), a company incorporated in the British Virgin Islands in which Mr. Shi Jian and his wife, Ms. Si Xiao Dong, together beneficially own 63% of its issued share capital. The remaining 37% interest in SRE Investment Holding Limited were held by other management staff of the Company including but not limited to Mr. Yu Hai Sheng, Mr. Li Yao Min and Mr. Jiang Xu Dong. Mr. Shi Jian and Mr. Li Yao Min, being executive Directors, are directors of SRE Investment Holding Limited.

Save as mentioned above, as at 31 December 2007, none of the Directors or chief executive of the Company or any of their associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors' Interest in Contracts

On 17 August 2007, the Company entered into a sale and purchase agreement with SRE Investment Holding Limited (the "Vendor"), the controlling shareholder of the Company in which Mr. Shi Jian and Mr. Li Yao Min are directors and shareholders, and Goldfull Enterprises Limited (the "Purchaser"), a wholly owned subsidiary of the Company, in relation to the acquisition of the entire share capital of Konmen Investment Limited for the consideration of HK$1,600 million, by issuing 526,315,789 new shares of the Company to SRE Investment Holding Limited.

Saved as disclosed above, no contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Company's directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares

In 2007, all directors had not been granted any options nor exercised any options.

Saved as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Substantial Shareholders' Interests

As at 31 December 2007, so far as is known to any Director or chief executives of the Company, the following persons, other than a Director or chief executives of the Company, had an interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under the Section 336 of Part XV of the SFO:

Long positions in Shares

Name of Shareholder	Capacity	No. of shares held	Approximate Percentage of Shareholding
Si Xiao Dong	Beneficial owner, spouse and corporate interest	1,208,906,129 (Note 1)	44.16%
SRE Investment Holding Limited (Note 2)	Beneficial owner	1,206,827,168	44.08%
Newton Investment Management Limited	Investment Manager	157,532,701	5.75%

Note 1-These Shares in which Ms. Si Xiao Dong is interested in comprise (i) 2,147 Shares being personal interest held by Ms. Si Xiao Dong; (ii) 1,206,827,168 Shares being interest held by SRE Investment Holding Limited in which Ms. Si Xiao Dong and her spouse, Mr. Shi Jian together beneficially own 63% of its issued share capital; and (iii) 2,076,814 Shares being personal interest of Mr. Shi Jian.

Note 2-These Shares were held by SRE Investment Holding Limited, a company incorporated in the British Virgin Islands in which Mr. Shi Jian and his wife, Ms, Si Xiao Dong, together beneficially own 63% of its issued share capital. The remaining 37% interest in SRE Investment Holding Limited were held by other management staff of the Company including but not limited to Mr. Yu Hai Sheng, Mr. Li Yao Min and Mr. Jiang Xu Dong. Mr. Shi Jian and Mr. Li Yao Min being executive Directors, are directors of SRE Investment Holding Limited.

Save as disclosed above, there was no person, other than a Director or chief executive of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company kept under Section 336 of the SFO.

Share Option Scheme

A share option scheme was approved in a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion at any time during the ten years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and will be determined according to the higher price of (i) the nominal value of the shares of the Company (ii) the average official closing price of the shares on the SEHK for the five trading days immediately preceding the relevant offer date and (iii) the official closing price of the shares on the SEHK on the relevant offer date. Options granted become vested immediately and are not conditional on employees' service period. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee and unless the Board shall otherwise resolve in relation to any option at the time of grant, such period of time should not exceed 3 years commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of such period or 11 November 2009, whichever is the earlier.

No share option was granted, exercised, cancelled or lapsed during the year ended 31 December 2007. No share option was granted, cancelled or lapsed in 2006. Share options exercised in 2006 resulted in the issuance of 500,000 shares and 1,000,000 shares at HK$0.94 and HK$0.83 per share respectively.

Major Customers and Suppliers

During the year, 11% of the Group's purchases were attributable to the Group's five largest suppliers with the largest supplier accounting for 3% of the Group's purchases. The Group's turnover attributable to the Group's five largest customers was less than 5%.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers disclosed above.

Directors' Compliance with the Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Specific enquiry has been made of all Directors, who have confirmed that they compiled with required standard set out in the Model Code

Public Float

According to the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the public float requirement under the Listing Rules.

Audit Committee

The Company established an audit committee on 12 November 2001 with terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee has seven members comprising the two non-executive Directors and the five independent non-executive Directors. The audited annual financial report for the year ended 31 December 2007 has been reviewed by the Audit Committee.

Pension Scheme

Details of the Group's pension schemes are set out in note 30 to the financial statements.

Auditors

The Group's financial statements for the year ended 31 December 2005 and 2006 were audited by Messrs. PricewaterhouseCoopers.

The financial statements for the year ended 31 December 2007 have been audited by Messrs. Ernst & Young. A resolution for their re-appointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board
Shi Jian
Chairman

Hong Kong, 23 April 2008

In April 2005, the Company adopted its own code on corporate governance practices which incorporates all the code provisions and a majority of the recommended best practices in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Throughout the period, the Company complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14.

The Board and senior management are committed to maintain a high standard of corporate governance which provides a framework and solid foundation for achieving a high standard of accountability and transparency.

Throughout the year ended 31 December 2007, the Company has complied with the board's practices and procedures as set out in the Listing Rules.

The Board had put in place a proper corporate governance structure in the Company. It is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. Under the Board, there are currently 2 subcommittees, namely Audit Committee and Remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

During the year, the Board complies at all times with the requirements of the Listing Rules relating to the appointment of at least 3 Independent Non-executive Directors and all of them have appropriate professional qualifications or accounting or related financial management expertise.

The number of full Board and Committee meetings attended by each Director during the year are as follows:

	Full Board (Note 1)	**Audit Committee** (Note 1)	**Remuneration Committee** (Note 1)
Executive Director			
Shi Jian	4(4)		
Li Yao Min	4(4)		
Yu Hai Sheng	4(4)		
Jiang Xu Dong	4(4)		
Lee Wai Man (Note 2)	3(4)		
Non-executive Director			
Cheung Wing Yui	4(4)	2(2)	1(1)
Jin Bing Rong (Note 3)	2(4)	1(2)	
Independent non-executive Director			
Yeung Kwok Wing	4(4)	2(2)	1(1)
Geng Yu Xiu	2(4)	1(2)	
E Hock Yap	4(4)	2(2)	1(1)

Note:

1. Number of meetings attended (number of meetings held)
2. Mr. Lee Wai man was appointed on 25 September 2007
3. Mr. Jin Bing Rong was appointed on 1 April 2007

Board Practices

As at 31 December 2007, the Board comprises ten directors of the Company (the "Directors") including the executive directors of the Company, the independent non-executive directors and non-executive of the Company. There is no financial, business, family or other material/relevant relationship amongst the Directors.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

Board papers are circulated and the Company Secretary attends all regular board meetings to advice on corporate governance and statutory compliance when necessary. In addition, the Company has maintained a procedure for Directors to seek independent professional advice in appropriate circumstances.

Remuneration Committee

According to the Code, the Company has set up a remuneration committee with a majority of the members thereof being independent non-executive directors. The remuneration committee comprises a majority of Independent Non-executive Directors of the Company, and schedules to meet at least once a year. It is chaired by Mr. E. Hock Yap and comprises two other members, namely Mr. Yeung Kwok Wing and Mr. Cheung Wing Yui. All remuneration committee members, with the exception of Mr. Cheung Wing Yui, are Independent Non-executive Directors. The quorum necessary for the transaction of business is two.

The principal functions of the remuneration committee include to review and determine specific remuneration packages for each Executive Director and senior management by reference to corporate goals and objectives resolved by the Board from time to time; and to review the share option scheme of the Company.

Audit Committee

The Company established an audit committee on 12 November, 2001. The major duties of the Audit Committee include:

- to consider and recommend the appointment, re-appointment and removal of external auditor;
- to approve the remuneration and terms of engagement of external auditor, any questions of resignation or dismissal of that auditor;
- to review and monitor external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services and to make recommendation of any measures for improvements to be taken;
- to review the interim and annual financial statements and the quarterly, interim and annual reports before submission to the Board;
- to review the Group's financial controls, internal control and risk management systems and ensure that the management has discharged its duty to have an effective internal control system;
- to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

- to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and monitor the effectiveness of the internal audit function;

- to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and to ensure that the Board will provide a timely response to the issues raised; and

- to review the Group's financial and accounting policies and practices.

The audit committee has explicit authority to investigate into any matter under the scope of its duties and the authority to obtain independent professional advice. It is given full access to and assistance from the management and reasonable resources to discharge its duties properly. At least once annually, the audit committee will meet the external auditors without the presence of the management.

The audit committee had met two times to review the interim and annual results of the Group during the year ended 31 December 2007.

Internal Control and Risk Management

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to help the business to achieve its objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

Auditors' Remuneration

During the year, the auditors of the Company, Messrs. Ernst & Young, charged RMB3,000,000 for audit services and RMB1,800,000 for reporting accountants services.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have complied with the required standard set out in the Model Code throughout the year of 2007.

Investor relations and Shareholders' Right

The Company uses a number of formal communications channels to account to shareholders and investors for the performance of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the website of the Company; (iv) the Company's website offering communication channel between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serving the shareholders respecting all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to shareholders in a timely manner and on a regular basis through the publication of interim and annual reports and/or dispatching circular, notices, and other announcements.

Corporate Information

Board of Directors

Shi Jian *(Chairman)*
Li Yao Min *(Vice-Chairman)*
Yu Hai Sheng *(Vice-Chairman & Chief Executive Officer)*
Jiang Xu Dong *(Chief Operation Officer)*
Lee Wai Man *(Chief Financial Officer)*
Cheung Wing Yui*
Jin Bing Rong *
Yeung Kwok Wing**
Geng Yu Xiu**
E. Hock Yap**

* Non-executive Directors
** Independent Non-executive Directors

Authorized Representatives

Shi Jian
Li Yao Min

Company Secretary

Lee Wai Yee

Legal Advisers

Woo, Kwan, Lee & Lo

Auditors

Ernst & Young

Principal Bankers

Hong Kong: Bank of China (HK) Ltd.
CITIC Ka Wah Bank Limited

PRC: The Agricultural Bank of China,
The Industrial and Commercial Bank of China

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Office

36th Floor, Times Tower
391-407 Jaffe Road
Wan Chai, Hong Kong

Principal Registrar and Transfer Office

Butterfield Corporate Service Ltd
Rose Bank Centre
11 Bermudiana Road
Pembroke, Bermuda

Hong Kong Branch Registrar and Transfer Office

Tricor Tengis Limited
Share Registration
26/F, Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

Stock Code

1207

Internet Web Site

www.sre.com.cn

E-mail

general@sregroup.com.hk

To the shareholders of SRE Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of SRE Group Limited (formerly known as "Shanghai Real Estate Limited") set out on pages 56 to 150, 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.

Director's 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, in accordance with Section 90 of the Bermuda Companies Act 1981, 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' judgment, 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 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
18F Two International Finance Centre, 8 Finance Street, Central
Hong Kong
23 April 2008

Consolidated Income Statement

Year ended 31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	2007	2006 Restated
Revenue	6	**3,350,446**	2,621,460
Cost of sales	9	**(2,713,929)**	(1,474,377)
Gross profit		**636,517**	1,147,083
Selling and marketing costs	9	**(112,345)**	(120,816)
Administrative expenses	9	**(173,746)**	(117,673)
Other income	7	**969**	10,818
Other gains-net	8	**1,302,738**	271,726
Operating profit		**1,654,133**	1,191,138
Finance income	10	**187,161**	115,674
Finance costs	10	**(140,105)**	(129,680)
Finance income/(costs)-net	10	**47,056**	(14,006)
Share of losses a of jointly-controlled entity and associates		**(31,021)**	(74,278)
Profit before tax		**1,670,168**	1,102,854
Tax	13	**(641,960)**	(730,965)
Profit for the year		**1,028,208**	371,889
Attributable to:	14		
Equity holders of the parent		**1,019,040**	53,842
Minority interests		**9,168**	318,047
Dividends-proposed final	15	**96,000**	44,000
Earnings per share attributable to ordinary equity holders of the parent (expressed in Hong Kong dollars per share)	16		
– Basic		**43.80 cents**	2.91 cents
– Diluted		**42.61 cents**	2.91 cents

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	Group 2007	Group 2006 Restated	Company 2007	Company 2006 Restated
ASSETS					
Non-current assets					
Property, plant and equipment	17	1,429,956	1,142,028	272	2,158
Investment properties	18	1,842,375	765,328	–	–
Prepaid land lease payments	19	1,108,527	244,827	–	–
Properties under development for long-term investment	20	880,124	277,325	–	–
Goodwill	21	422,627	75,512	–	–
Investments in subsidiaries	22(a)	–	–	4,260,440	2,027,472
Advances to subsidiaries	22(b)	–	–	857,205	1,576,330
Interests in a jointly-controlled entity	23	–	54,448	–	–
Interests in associates	23	972,668	495,199	–	–
Financial assets at fair value through profit or loss	24	–	550,014	–	–
Deferred tax assets	35	–	8,122	–	–
Other non-current assets	22(c)	63,159	–	41,801	–
		6,719,436	3,612,803	5,159,718	3,605,960
Current assets					
Prepaid land lease payments	19	5,554,483	2,588,791	–	–
Properties held or under development for sale	25	4,109,523	2,375,308	–	–
Inventories		24,673	748	–	–
Dividends receivable from subsidiaries		–	–	976,131	493,131
Amounts due from a jointly-controlled entity and associates	46(b)	11,048	266,194	3,868	3,605
Prepayments and other current assets	26	78,891	74,179	638	–
Other receivables	27	1,106,464	252,789	252	55,963
Accounts receivable	28	54,817	20,186	–	–
Prepaid income tax		23,837	26,718	–	–
Cash and bank balances	29	1,939,359	1,025,904	269,482	61,306
		12,903,095	6,630,817	1,250,371	614,005
Total assets		19,622,531	10,243,620	6,410,089	4,219,965

Balance Sheets

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	Group 2007	Group 2006 Restated	Company 2007	Company 2006 Restated
EQUITY AND LIABILITIES					
Equity					
Share capital and premium	30	**3,956,327**	2,042,586	**3,956,327**	2,042,586
Other reserves	31	**555,442**	153,173	**262,737**	46,753
Retained earnings/(accumulated losses)	31				
– Proposed final dividends		**96,000**	44,000	**96,000**	44,000
– Others		**1,192,117**	317,884	**1,573**	(234,320)
Equity attributable to equity holders of the parent		**5,799,886**	2,557,643	**4,316,637**	1,899,019
Minority interests		**783,469**	396,981	**–**	–
Total equity		**6,583,355**	2,954,624	**4,316,637**	1,899,019
LIABILITIES					
Non-current liabilities					
Interest-bearing bank and other borrowings	32	**2,629,211**	1,030,158	**351,078**	–
Guaranteed notes	33	**1,540,928**	1,535,167	**1,540,928**	1,535,167
Deferred tax liabilities	35	**755,355**	283,169	**–**	–
		4,925,494	2,848,494	**1,892,006**	1,535,167
Current liabilities					
Interest-bearing bank and other borrowings	32	**1,164,570**	737,040	**142,182**	364,790
Convertible bonds – host debts	34	**35,363**	89,994	**35,363**	89,994
Derivative financial liabilities	36	**19,604**	326,128	**19,604**	326,128
Advances received from the pre-sale of properties under development	37	**2,392,775**	963,755	**–**	–
Accounts payable	38	**1,596,202**	860,701	**–**	–
Other payables and accruals	39	**2,072,911**	933,070	**4,297**	3,403
Current income tax liabilities		**831,880**	528,350	**–**	–
Amounts due to a jointly-controlled entity and associates	46(b)	**377**	1,464	**–**	1,464
		8,113,682	4,440,502	**201,446**	785,779
Total liabilities		**13,039,176**	7,288,996	**2,093,452**	2,320,946
Total equity and liabilities		**19,622,531**	10,243,620	**6,410,089**	4,219,965
Net current assets/(liabilities)		**4,789,413**	2,190,315	**1,048,925**	(171,774)
Total assets less current liabilities		**11,508,849**	5,803,118	**6,208,643**	3,434,186

The accompanying notes are an integral part of these consolidated financial statements.

Shi Jian
Chairman

Yu Hai Sheng
Vice Chairman and Chief Executive Officer

Year ended 31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Attributable to equity holders of the parent									
	Share capital and premium (Note 30)	Equity component of convertible bonds (Note 31)	Assets revaluation reserve	Share option reserve (Note 31)	Surplus reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2006										
As previously reported	859,071	28,443	35,946	248	56,724	24,149	440,401	1,444,982	180,228	1,625,210
Effect of prior year adjustments (Note 2)	13,943	(28,443)	–	–	–	–	(36,717)	(51,217)	–	(51,217)
As restated	873,014	–	35,946	248	56,724	24,149	403,684	1,393,765	180,228	1,573,993
Exchange realignment	–	–	–	–	–	38,870	–	38,870	20,581	59,451
Total income for the year recognised directly in equity	–	–	–	–	–	38,870	–	38,870	20,581	59,451
Profit for the year	–	–	–	–	–	–	53,842	53,842	318,047	371,889
Total income for the year	–	–	–	–	–	38,870	53,842	92,712	338,628	431,340
Employee share option scheme	1,300	–	–	–	–	–	–	1,300	–	1,300
Issue of shares upon conversion of convertible bonds	628,869	–	–	–	–	–	–	628,869	–	628,869
Issue of ordinary shares	502,218	–	–	–	–	–	–	502,218	–	502,218
Share of equity movement in a jointly-controlled entity	–	–	(23,934)	–	–	–	5,634	(18,300)	–	(18,300)
Acquisition of minority interests	–	–	–	–	–	–	–	–	(178,279)	(178,279)
Step acquisition of a subsidiary	–	–	–	–	–	–	–	–	1,523	1,523
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	211,672	211,672
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	57,421	57,421
Dissolution of a subsidiary	–	–	–	–	–	–	–	–	(29,602)	(29,602)
Appropriations	–	–	–	–	21,170	–	(21,170)	–	–	–
Dividends relating to 2005										
– Cash dividends (Note 15)	–	–	–	–	–	–	(42,921)	(42,921)	–	(42,921)
– Share dividends (Note 15)	37,185	–	–	–	–	–	(37,185)	–	–	–
Dividends declared by subsidiaries	–	–	–	–	–	–	–	–	(184,610)	(184,610)
At 31 December 2006	2,042,586	–	12,012 *	248 *	77,894 *	63,019 *	361,884	2,557,643	396,981	2,954,624

Consolidated Statement of Changes in Equity

Year ended 31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Attributable to equity holders of the parent									
	Share Share capital and premium (Note 30)	Equity Equity component of convertible bonds (Note 31)	Assets revaluation reserve	Share Share option reserve (Note 31)	Surplus reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2007										
As previously reported	1,871,130	1,208	12,012	248	77,894	63,945	597,130	2,623,567	396,981	3,020,548
Effect of prior year adjustments (Note 2)	171,456	(1,208)	–	–	–	(926)	(235,246)	(65,924)	–	(65,924)
As restated	2,042,586	–	12,012	248	77,894	63,019	361,884	2,557,643	396,981	2,954,624
Exchange realignment	–	–	–	–	–	261,230	–	261,230	67,750	328,980
Total income for the year recognised directly in equity	–	–	–	–	–	261,230	–	261,230	67,750	328,980
Profit for the year	–	–	–	–	–	–	1,019,040	1,019,040	9,168	1,028,208
Total income for the year	–	–	–	–	–	261,230	1,019,040	1,280,270	76,918	1,357,188
Effects of change in tax rate	–	–	2,567	–	–	–	–	2,567	–	2,567
Issue of shares upon conversion of convertible bonds	121,672	–	–	–	–	–	–	121,672	–	121,672
Share of equity movement in an associate	–	–	(18,196)	–	–	–	–	(18,196)	–	(18,196)
Acquisition of minority interests (Note 22 (a) (i))	–	–	–	–	–	–	–	–	(1,335)	(1,335)
Acquisition of a subsidiary (Note 44(b))	1,768,421	–	–	–	–	–	–	1,768,421	250,925	2,019,346
Capital contribution from minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	61,728	61,728
Increase in fair value of previously held interest upon step acquisition to a subsidiary (Note 44(a))	–	–	106,955	–	–	–	–	106,955	–	106,955
Revaluation reserve transfer arising from sales of property	–	–	(86,469)	–	–	–	86,469	–	–	–
Appropriations	–	–	–	–	136,182	–	(136,182)	–	–	–
Dividends relating to 2006										
– Cash dividends (Note 15)	–	–	–	–	–	–	(19,446)	(19,446)	–	(19,446)
– Share dividends (Note 15)	23,648	–	–	–	–	–	(23,648)	–	–	–
Dividends declared by subsidiaries	–	–	–	–	–	–	–	–	(1,748)	(1,748)
At 31 December 2007	**3,956,327**	**–**	**16,869 ***	**248 ***	**214,076 ***	**324,249 ***	**1,288,117**	**5,799,886**	**783,469**	**6,583,355**

* Other reserve accounts comprise the consolidated reserve of HK$555,442,000 (2006: HK$153,173,000) in the consolidated balance sheet.

Year ended 31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	40	983,117	(970,283)
Interest paid		(305,183)	(184,905)
Income tax paid		(284,325)	(127,119)
Net cash inflow/(outflow) from operating activities		393,609	(1,282,307)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	17	(10,482)	(426,240)
Increase in properties under development for long-term investment		(695,401)	(133,476)
Proceeds from disposal of property, plant and equipment		5,652	429
Acquisition of subsidiaries, net of cash acquired	44	99,522	(432,241)
Disposal/dissolution of subsidiaries	45	(21,360)	(7,230)
Prepayment for acquisition of additional equity interest in a subsidiary		(41,801)	–
Cash receipts from the shareholder in respect of land obtained via the acquisition of a subsidiary	27(d)	549,445	–
Increase in investments in an associate		–	(430,706)
Disposal of an interest in an associated company		–	6,288
Loans granted to third parties		–	(60,491)
Loans granted to associated companies		–	(288,643)
Loans repayments received from associate		–	348,363
Interest received		45,533	50,311
Net cash used in investing activities		(68,892)	(1,373,636)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of ordinary shares upon exercise of share options	30	–	1,300
Net proceeds from placement of new shares	30	–	502,218
Net proceeds from issuance of Guaranteed Notes	33	–	1,549,828
Guarantee deposit for currency swaps	27	53,272	(53,272)
Periodical settlement of currency swaps	36	–	21,491
(Increase)/decrease in pledged bank deposits	29	(74,426)	1,262
Net proceeds from short-term borrowings		80,936	318,760
Proceeds from long-term borrowings		802,322	1,109,378
Repayments of long-term borrowings		(480,608)	(1,025,206)
Cash received from the capital injection of minority shareholders of subsidiaries		64,075	57,421
Dividends paid to minority interests		–	(179,731)
Dividends paid to the Company's shareholders	15	(19,446)	(42,921)
Net cash generated from financing activities		426,125	2,260,528
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		750,842	(395,415)
Cash and cash equivalents at beginning of year	29	1,010,743	1,375,786
Effect of foreign exchange rate changes, net		90,184	30,372
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	1,851,769	1,010,743

1. CORPORATE INFORMATION

SRE Group Limited (formerly known as "Shanghai Real Estate Limited", the "Company") was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on Hong Kong Exchanges and Clearing Limited (the "HKEx"), the Company became the ultimate holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30 November 1999. The shares of the Company were listed on the HKEx on 10 December 1999. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

Pursuant to a resolution passed at the annual general meeting of the Company held on 7 May 2007, the Company changed its name from "Shanghai Real Estate Limited" to "SRE Group Limited".

The Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in real estate development in the People's Republic of China (the "PRC").

Shanghai Golden Luodian Development Co., Ltd. ("Golden Luodian") used to be a jointly-controlled entity of the Group. It became a subsidiary of China New Town Development Co., Ltd ("CNTD") as a result of a reorganisation in December 2006. As of 31 December 2006, the investment in CNTD was accounted for as interests in a jointly-controlled entity as the Group and the other then shareholder jointly controlled CNTD until CNTD was in Singapore Exchange Limited in November 2007, when CNTD became an associate of the Group. For further details, please refer to Note 23.

2 PRIOR YEAR ADJUSTMENTS

The Company issued two convertible bonds – CB1 and CB2 on 3 May 2004 and 9 November 2005, respectively, further details of which are more fully disclosed in Note 34. Please also refer to Note 3.4 for the accounting policy for convertible bonds..

In prior years, the conversion options embedded in CB1 and CB2 were separated from the host and accounted for as part of equity upon initial recognition on the respective dates of issuance of the convertible bonds, and the amounts ascribed to the conversion options were not remeasured subsequently in the financial statements of the Group and the Company.

With reference to the original terms of CB1 and CB2, the conversion options embedded in CB1 and CB2 were found not meeting the definition of equity instruments upon their initial recognition, and thus should be separated from the convertible bonds as derivative components which should be measured at fair value upon initial recognition, and remeasured at fair values at each reporting date, with changes being recognised in the income statement of the period in which they arose, and with the derivative components being presented as derivative financial instruments on the balance sheet.

Accordingly, prior year adjustments had been made to account for such change by increasing convertible bonds (including embedded derivative financial liabilities) in current liabilities of the Company and the Group by HK$65,924 thousand and HK$51,217 thousand as of 31 December 2006 and 1 January 2006, respectively, and decreasing total equity of the Company and the Group as of the respective dates by the corresponding amounts. Details of the change made to the related components of total equity of the Group in the respective dates are shown in the Consolidated Statement of the Changes in Equity whereas details of the changes of total equity of the Company are shown in Note 30 (for share premium), and Note 31 (for reserves) to the financial statements.

2 PRIOR YEAR ADJUSTMENTS (continued)

The impact of the above to the Group's and the Company's net profit for the year ended 31 December 2006 was HK$198,529 thousand, mainly representing the fair value losses of the embedded conversion options classified as derivative financial liabilities. Hence, the basic earnings per share and diluted earnings per share for the year ended 31 December 2006 were reduced from HK$13.63 cents to HK$2.91 cents per share and from HK$12.27 cents to HK$2.91 cents per share; respectively. Consequently, certain corresponding figures to the financial statements of the Group and the Company have been restated and reclassified to conform to the current year's presentation. The above changes did not have a tax and cash flow impact to the Group and the Company.

As further disclosed in Note 34, CB1 had been fully converted to the ordinary shares of the Company in 2006, and the outstanding balance (including the embedded derivative financial liabilities) of CB2 was HK$54,967 thousand as at 31 December 2007.

3.1 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 the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The financial statements include the financial statements of 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 values 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. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

3.2 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. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

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

(a) 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. As the Company has only issued equity instruments to its employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(b) 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's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no effect on these financial statements.

(c) 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.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

3.3 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.

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

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

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

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

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

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

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.

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.

The revised HKAS 1 Presentation of Financial Statements was issued in December 2007. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The amendment to HKFRS 2 was published in March 2008. The Standard restricts 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 no outstanding share-based payment scheme as of 31 December 2007.

The HKFRS 3 (revised) and HKAS 27 (revised) were issued in March 2008. HKFRS 3 (revised) introduces 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. HKAS 27 (revised) requires that 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 raise 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) will be applied prospectively and will affect future acquisitions and transactions with minority interests.

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. The Group has no such scheme as of 31 December 2007.

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.

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.

3.4 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 investments in subsidiaries are stated at cost less any impairment losses.

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 are 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 interest in the jointly-controlled entity, except where unrealized losses provide evidence of an impairment of the asset transferred.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates 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 associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, properties held or under development for sale deferred tax assets, financial assets, investment properties, and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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.

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.

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);

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. 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:

Hotel properties	Building 40 years, equipment 10 years, fitting and fixtures 8 years
Buildings	30 years
Leasehold improvements	Over the remaining period of the lease
Furniture, fitting, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

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.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings 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.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. 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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other 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, held-to-maturity investments 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 derivatives 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with policies set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or held-to-maturity investments 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 through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial liabilities including trade and other payables, interest-bearing loans and 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. The related interest expense is recognised within "finance costs" in the income statement.

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its host debt component. On initial recognition, the derivative component (including all embedded derivatives that should be separated from the host debt) of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host debt component (as a liability). Transaction costs are apportioned between the host debt and derivative components of the convertible bonds based on the allocation of proceeds to the host debt and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the host debt component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

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.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments, or reference to the present value of estimated future cash flows.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties held or under development for sale

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value. Properties under development for long-term investment are stated at cost less any accumulated impairment losses.

The costs of properties held or under development consist of construction expenditures and borrowing costs directly attributable to the construction of such properties and other direct costs. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

No depreciation is provided on properties held or under development for sale.

Inventories

Inventories mainly comprise food, beverages and operating supplies and are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 goodwill or 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, associates 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, associates 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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 basis:

Sales of properties

Revenue from sale of properties is recognised upon completion of a sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advance received from pre-sale of properties under development.

Sale of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. The Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Construction of infrastructure for intelligent network

Revenue from the construction of infrastructure for an intelligent network is recognised as follows:

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Operating rental income

Operating rental income is recognised on a straight-line basis.

Property management revenue

Property management revenue is recognised in the accounting period in which the services are rendered.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Hotel operation revenue

Hotel operation revenue represents the income from hotel rooms and the sale of related food and beverages, which is recognised when the services are rendered or goods are sold.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Other employee benefits

Pursuant to PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff have been made monthly to a government agency based on 27%-30% of the standard salary set by the government, of which 19%-22% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. In addition, the Group participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's monthly salary are made by the employer and the Hong Kong employee. The provision and contributions have been included in the accompanying consolidated income statement upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

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

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. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company and its subsidiaries' functional currency are Renminbi ("RMB"), as the major revenues are derived from operation in mainland China. Considering the Company is listed in HKEx, Hong Kong dollars ("HK$") is chosen as the presentation currency to present the consolidated financial statements.

(b) Transactions and balances

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.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group. Contingent liabilities and assets are not recognised on the balance sheet of the Group.

4. 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.

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.

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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was HK$ 423 million (2006: HK$ 76 million). More details are given in Note 21.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2007 was HK$ 1,822 million (2006: HK$ 742 million).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimation of fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

Income taxes (including land appreciation tax)

The Group is subject to taxation mainly in Mainland China. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets and liabilities (including land appreciation tax)

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 by the balance sheet date. Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Significant management judgement is required to estimate the amount and timing of future taxable profit as well as the applicable tax rates so as to determine, together with the tax planning strategies, the amount of deferred income tax assets and liabilities to be recognised.

Change in accounting estimate

Tax rate decreased under new Corporate Income Tax Law

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which becomes effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 decreases from 33% to 25%. This reduction in the income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to HKAS 12, deferred tax assets and deferred tax 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. As a result, the change in the corporate income tax rate has had the following impact on the results and financial position of the Group for the year ended 31 December 2007:

	2007
Decrease in corporate income tax expense for the current period	152,846
Increase in revaluation reserve	2,567
Decrease in deferred tax assets	1,199
Decrease in deferred tax liabilities	156,612

5. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as the majority of Group's customers and operations are located in Mainland China.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

5. SEGMENT INFORMATION (continued)

An analysis by business segment is as follows:

	Year ended 31 December 2007					
	Property development	Property leasing	Housing technology	Hotel operation	Corporate and other operations	Total
Segment revenue						
External sales	3,209,511	40,846	38,202	39,030	22,857	3,350,446
Operating profit/(loss)/ segment profit/(loss)	555,733	968,581	(4,832)	(76,503)	211,154	1,654,133
Finance income						187,161
Finance costs						(140,105)
Finance income – net						47,056
Share of net profit/(loss) of jointly-controlled entitie and associates	–	–	3,082	–	(34,103)	(31,021)
Profit before income tax						1,670,168
Income tax expense						(641,960)
Profit for the year						1,028,208
Segment assets and liabilities						
Segment assets	13,614,565	3,177,016	36,419	1,388,794	433,069	18,649,863
Interests in associates	–	–	68,689	–	903,979	972,668
Total assets	13,614,565	3,177,016	105,108	1,388,794	1,337,048	19,622,531
Segment liabilities	9,525,136	1,314,449	31,652	50,203	2,117,736	13,039,176
Total liabilities	9,525,136	1,314,449	31,652	50,203	2,117,736	13,039,176
Other segment information:						
Depreciation	4,359	911	381	28,517	261	34,429
Capital expenditure	4,896,315	707,507	9	74,387	769	5,678,987
Fair value loss on derivative financial liabilities	–	–	–	–	51,825	51,825
Fair value gain on investment properties	–	942,269	–	–	–	942,269
Impairment loss charges	3,672	–	7,262	–	–	10,934

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

5. SEGMENT INFORMATION (continued)

	Year ended 31 December 2006				
	Property development	Property leasing	Housing technology	Corporate and other operations	Total
					Restated
Segment revenue					
External sales	2,571,936	14,159	29,608	5,757	2,621,460
Operating profit/(loss)/ segment profit/(loss)	818,407	590,720	9,944	(227,933)	1,191,138
Finance income					115,674
Finance costs					(129,680)
Finance income – net					(14,006)
Share of net profit/(loss) of jointly-controlled entity and associates	(7,572)	–	1,375	(68,081)	(74,278)
Profit before income tax					1,102,854
Income tax expense					(730,965)
Profit for the year					371,889
Segment assets and liabilities					
Segment assets	7,975,831	771,756	254,916	691,470	9,693,973
Interest in a jointly-controlled entity	–	–	–	54,448	54,448
Interests in associates	433,685	–	61,514	–	495,199
Total assets	8,409,516	771,756	316,430	745,918	10,243,620
Segment liabilities	4,668,194	211,693	74,707	2,334,402	7,288,996
Total liabilities	4,668,194	211,693	74,707	2,334,402	7,288,996
Other segment information:					
Depreciation	5,003	–	516	55	5,574
Impairment of goodwill relating to an associate	–	–	2,468	–	2,468
Capital expenditure	2,954,644	309,811	59	952	3,265,466
Fair value loss on derivative financial liabilities	–	–	–	389,482	389,482
Fair value gain on investment properties	–	579,540	–	–	579,540
Impairment loss charges	1,977	–	–	–	1,977

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

6. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; and gross rental income received and receivable from investment properties during the year.

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

	2007	2006
Sales of properties held or under development	**3,395,319**	2,723,347
Revenue from construction of infrastructure for intelligent network	**33,162**	12,107
Sales of network hardware and installation of intelligent home equipment	**5,264**	18,674
Revenue from property leasing (Note18)	**42,156**	14,886
Property management income	**24,206**	6,081
Hotel operation	**41,095**	–
	3,541,202	2,775,095
Less: sales taxes (a)	**(190,756)**	(153,635)
	3,350,446	2,621,460

(a) Sales taxes

Sales taxes represent business tax ("BT") and surtaxes.

The Group is subject to business tax ("BT") at 5% on the revenue from the sale/pre-sale of properties, hotel operation, installation of intelligent home equipment, and property leasing. In addition, the Group is also subject to BT at 3% on the revenue less payments to subcontractors from the construction of infrastructure for intelligent network. On top of BT, some subsidiaries are also subject to the following surtaxes:

- City development tax, a tax levied at 1% to 7% of BT or Value-Added Tax ("VAT");
- Education supplementary tax, a tax levied at 3% to 4% of BT or VAT.

7. OTHER INCOME

	2007	2006
Interest income on term loan	–	1,958
Interest income on loans to associated companies (Note 46(a))	–	8,860
Others	**969**	–
	969	10,818

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

8. OTHER GAINS-NET

	2007	2006 Restated
Fair value gain on investment properties (Note 18)	**942,269**	579,540
Derivative financial instruments at fair value through profit or loss-fair value loss, net (Notes 34, 36)	**(51,825)**	(389,482)
Loss on disposal of property, plant and equipment, net	**(175)**	(379)
Gain from disposal of interests in an associate	**–**	2,344
Loss on dissolution of a subsidiary (Note 45)	**–**	(5,538)
Loss on transaction with minority interests	**–**	(118,224)
Excess of fair value of identifiable net assets acquired over the cost of consideration in business combinations (Note 44)	**112,170**	17,266
Gain from disposal of interests in a jointly-controlled entity (including changes in fair value of convertible notes issued by the jointly-controlled entity to the Group) (Notes 23, 24)	**293,982**	189,098
Others	**6,317**	(2,899)
	1,302,738	271,726

9. EXPENSE BY NATURE

	2007	2006
Cost of inventories (excluding depreciation)	**2,685,412**	1,472,854
Depreciation of property, plant and equipment (Note 17)	**34,429**	5,574
Employee benefit expense (including directors' emoluments)		
– Wages and salaries	**55,225**	46,397
– Pension and other social welfare	**15,748**	10,321
	70,973	56,718
Operating lease payment in respect of buildings	**8,245**	6,944
Auditors' remuneration	**4,938**	2,966
Impairment of accounts receivable (Note 28)	**10,934**	1,977
Commission for sale of properties	**54,871**	85,295
Advertising costs	**44,411**	18,603
Impairment of goodwill relating to an associate	**–**	2,468
Net foreign exchange losses	**–**	16,752
Others	**85,807**	42,715
	3,000,020	1,712,866

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

10. FINANCE COSTS

	2007	2006 Restated
Interest expense:		
Interest on bank borrowings and other borrowings-wholly repayable within five years	**197,578**	112,040
Interest on the Guaranteed Notes-wholly repayable beyond five years (Note 33)	**140,724**	95,802
Interest on CB1-wholly repayable within five years (Note 34)	**–**	2,084
Interest on CB2-wholly repayable within five years (Note 34)	**7,349**	23,034
	345,651	232,960
Less: Amount capitalised in properties held or under development for sale, property under development for long term investment and construction-in-progress	**(205,546)**	(109,158)
Finance costs	**140,105**	123,802
Finance income		
Interest income on bank deposits	**(45,533)**	(48,353)
Net foreign exchange gain	**(141,628)**	(61,443)
	(187,161)	(109,796)
Net finance (income)/costs recorded to the income statements	**(47,056)**	14,006

During the year ended 31 December 2007, the weighted average interest capitalisation rate was 7.56% (2006: 5.92%).

11. DIRECTORS REMUNERATION

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

	2007			
Name of Director	**Salary**	**Fees**	**Other Benefits**	**Total**
Executive directors				
– Mr. Shi Jian	2,000	–	–	2,000
– Mr. Li Yao Min	1,550	–	–	1,550
– Mr. Yu Hai Sheng	2,000	–	–	2,000
– Mr. Jiang Xu Dong	1,280	–	–	1,280
– Mr. Lee Wai Man	1,111	–	–	1,111
– Mr. Qian Reng Hui (resigned in 2007)	375	–	–	375
Non-executive directors				
– Mr. Cheung Wing Yui	–	300	–	300
– Mr. Jin Bing Rong	–	225	–	225
– Mr. Wang Ru Li (resigned in 2007)	–	–	–	–
Independent non-executive directors				
– Mr. Yeung Kwok Wing	–	150	–	150
– Mr. Geng Yu Xiu	–	120	–	120
– Mr. E Hock Yap	–	200	–	200
– The Lord Killearn (resigned in 2007)	–	50	–	50
– Mr. Sang Rong Lin (resigned in 2007)	–	–	–	–

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

11. DIRECTORS REMUNERATION (continued)

	2006			
Name of Director	Salary	Fees	Other Benefits	Total
Executive directors				
– Mr. Shi Jian	1,700	–	–	1,700
– Mr. Li Yao Min	1,600	–	–	1,600
– Mr. Yu Hai Sheng	1,500	–	–	1,500
– Mr. Qian Reng Hui	1,500	–	–	1,500
– Mr. Jiang Xu Dong	240	–	–	240
Non-executive directors				
– Mr. Cheung Wing Yui	–	300	–	300
– Mr. Wang Ru Li	–	–	–	–
Independent non-executive directors				
– Mr. Sang Rong Lin	–	–	–	–
– Mr. Yeung Kwok Wing	–	150	–	150
– The Lord Killearn	–	200	–	200
– Mr. Geng Yu Xiu	–	120	–	120
– Mr. E Hock Yap	–	200	–	200

No discretionary bonuses, inducement fees, employer's contribution to pension scheme or compensation for loss of office as directors were given to any of the directors during the year ended 31 December 2007 and 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2007 (2006: Mr. Wang Ru Li, non-executive director and Mr. Sang Rong Lin, independent non-executive director waived their entitlement to receive remuneration).

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2006: four) directors, details of whose remuneration are set out in Note 11 above. Details of the remuneration of the remaining one non-director, highest paid employees for 2006 are as follow:

	2007	2006
Basic salaries, housing allowances, share options, other allowances and benefits in kind	–	1,755
Pension scheme	–	12
	–	1,767

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

	2007	2006
Nil-HK$1,000,000	–	–
HK$1,000,001–HK$1,500,000	–	–
HK$1,500,001–HK$2,000,000	–	1

13. TAX

	2007	2006
Current taxation		
– Mainland China enterprise income taxation	256,832	227,691
– Mainland China land appreciation taxation	333,903	288,680
	590,735	516,371
Deferred taxation (Note 35)		
– Mainland China enterprise income taxation	51,225	214,594
Total tax charge for the year	641,960	730,965

(a) Mainland China enterprise income tax

The Group conducts a significant portion of its business in the PRC and the applicable enterprise income tax ("EIT") rate of its subsidiaries operating in the PRC is generally 33% other than Wingo Infrastructure, a Sino-foreign equity joint venture, which is established within the technological economic development zone of an old urban district of a city, where applicable EIT rate for year 2007 is 27% (2006: 27%).

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of transaction and revenue recognition, based on certain estimations. Prepaid income tax amounted to approximately HK$9.5 million as of 31 December 2007 (2006: approximately HK$23 million).

The effect of change in corporate income tax rate was disclosed in Note 4.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

13. TAX (continued)

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2016.

(c) Mainland China land appreciation tax ("LAT")

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership.

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transaction and revenue recognition, generally based on 1% to 1.5% on advances received. Prepaid LAT had been recorded in "prepaid income tax" with amount of approximately HK$14.3 million as of 31 December 2007 (2006: approximately HK$4 million).

(d) Withholding tax

Pursuant to the new tax law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 are exempted from withholding tax.

A reconciliation of the tax expense applicable to profit before tax using the Group's general taxation rate of 33% to the tax expense at the Group's effective tax rate is as follows:

	2007	2006
Profit before tax	**1,670,168**	1,102,854
Tax computed at the applicable tax rate of 33%	**551,155**	363,942
Effect on opening deferred tax due to change in enactment of tax rate	**(152,846)**	–
Lower tax rates for some subsidiaries	**(1,035)**	(534)
Tax impact of results attributable to a jointly-controlled entity and associates	**10,237**	24,512
Impact of land appreciation tax (which is itself classified as part of income tax) as it is deductible for income tax purpose	**(110,188)**	(95,264)
Income not subject to tax	**(262,149)**	(83,557)
Expense not deductible for tax	**124,429**	233,186
Tax in relation to transfer of investment properties within the Group	**148,454**	–
Mainland China enterprise income tax	**308,057**	442,285
Mainland China land appreciation taxation	**333,903**	288,680
Total tax charged for the year	**641,960**	730,965

The share of tax attributable to a jointly-controlled entity and associates amounting to HK$10.8 million (2006: HK$4.5 million), respectively, is included in "Share of losses of a jointly-controlled entity and associates" on the face of the consolidated income statement.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

14. 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 HK$330.99 million (2006: a loss of HK$145.76 million) which has been dealt with in the financial statements of the Company (Note 31(b)).

15. DIVIDENDS

	2007	2006
Proposed final dividend of HK$0.035 (2006: HK$0.020) per ordinary share	**96,000**	44,000

The dividends paid during the year ended 2007 and 2006 were approximately HK$19,445,536 (HK$0.020 per share) and approximately HK$42,921,000 (HK$0.043 per share) respectively. A dividend in respect of 2007 of HK$96 million was declared to shareholders whose names appear on the Register of Members of the Company on 15 May 2008, as proposed at the meeting of Board of Directors on 23 April 2008. According to total issued ordinary shares on 23 April 2008, the dividends declared are approximately HK$0.035 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

Pursuant to a resolution passed at the general meeting on 7 May 2007, the Company offered to its shareholders scrip dividends equivalent to HK$0.02 per ordinary share of HK$0.10 with an alternative to its shareholders to elect to receive the dividend in cash in lieu of all or part of their scrip dividend entitlements. As of 22 June 2007 (date shareholders are required to elect alternatives), shareholders holding a total of 972,276,786 shares elected for cash dividend and cash dividends of approximately HK$19,445,536 were paid, while shareholders holding a total of 1,182,413,135 shares elected for scrip dividend resulting in 9,060,637 shares being allotted at the price of HK$2.61 (Note 30 (b)).

16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts 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, as adjusted to reflect the rights issue during the year and the bonus issue after the balance sheet date.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds (Note 34) and share options (Note 30). The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense and fair value gain less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at market price (determined as average annual share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options to determine the ordinary shares deemed to be issued at no consideration ("bonus share"). The "bonus shares" are added to the ordinary shares outstanding but no adjustment is made to net profit and the calculation of basic and dilutive earnings per share for all periods presented are adjusted restrospectively.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2007	2006 Restated
Profit attributable to ordinary equity holders of the Parent, used in the basic earnings per share calculation	1,019,040	53,842
Fair value (gain)/loss on the derivative component of the convertible bonds, net of tax (Note 34)	(12,458)	178,122
Interest on convertible bonds, net of tax (Note 10)	7,349	25,118
Profit attributable to ordinary equity holders of the parent before the above impact arising from convertible bonds	1,013,931	257,082

	Number of shares 2007	2006 Restated
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (thousands)	2,326,369	1,851,898
Effect of dilution – weighted average number of ordinary shares:		
Share option (thousands)	–	198
Convertible bonds (thousands)	52,926	221,453
	2,379,295	2,073,549
Basic earnings per share(HK$ per share)	43.80 cents	2.91 cents
Diluted earnings per share (HK$ per share)	42.61 cents	2.91 cents

Because the diluted earnings per share amount for year ended 31 December 2006 is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts for year ended 31 December 2006 are based on the profit for the year of HK$53.84 million (restated), and the weighted average of 1,852,096 thousands ordinary shares in issue during that year.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

17. PROPERTY, PLANT AND EQUIPMENT

Group

	2007					
	Buildings	Leasehold improvement	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
Beginning of year	–	1,779	8,627	32,993	1,119,343	1,162,742
Acquisition of subsidiaries (Note 44)	–	1,549	2,734	8,002	–	12,285
Additions	–	–	15,361	4,853	213,066	233,280
Transfer	719,124	–	489,752	–	(1,208,876)	–
Disposals	–	(829)	(2,552)	(8,960)	–	(12,341)
Exchange realignment	33,483	151	23,483	3,092	27,707	87,916
End of year	752,607	2,650	537,405	39,980	151,240	1,483,882
Accumulated depreciation						
Beginning of year	–	1,651	5,230	13,833	–	20,714
Acquisition of subsidiaries (Note 44)	–	–	2,304	293	–	2,597
Depreciation charge	9,516	31	19,330	5,552	–	34,429
Disposals	–	(829)	(933)	(4,752)	–	(6,514)
Exchange realignment	362	90	968	1,280		2,700
End of year	9,878	943	26,899	16,206	–	53,926
Net carrying amount						
Balance, end of year	742,729	1,707	510,506	23,774	151,240	1,429,956
Balance, beginning of year	–	128	3,397	19,160	1,119,343	1,142,028

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

17. PROPERTY, PLANT AND EQUIPMENT (continued)

	2006				
	Leasehold improvement	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost					
Beginning of year	1,718	6,818	23,226	469,266	501,028
Acquisition of subsidiaries	–	1,131	3,062	–	4,193
Additions	–	1,204	8,544	633,448	643,196
Disposals	–	(768)	(2,662)	–	(3,430)
Exchange realignment	61	242	823	16,629	17,755
End of year	1,779	8,627	32,993	1,119,343	1,162,742
Accumulated depreciation					
Beginning of year	1,425	3,847	10,708	–	15,980
Acquisition of subsidiaries	–	528	686	–	1,214
Depreciation charge	173	1,261	4,140	–	5,574
Disposals	–	(592)	(2,030)	–	(2,622)
Exchange realignment	53	186	329	–	568
End of year	1,651	5,230	13,833	–	20,714
Net carrying amount					
Balance, end of year	128	3,397	19,160	1,119,343	1,142,028
Balance, beginning of year	293	2,971	12,518	469,266	485,048

Depreciation expenses of approximately HK$28,517,000 (2006: approximately HK$1,523,000) had been expensed in cost of goods sold, approximately HK$41,000 (2006: approximately HK$168,000) in selling and marketing costs and approximately HK$5,871,000 (2006: approximately HK$3,883,000) in administrative expenses.

The building that was transferred from construction-in-progress represents a 50-storey hotel building known as "Oasis Skyway Garden Hotel". The hotel commenced operation during the year ended 31 December 2007. The hotel stands on two adjacent land parcels with a lease period of 50 years and comprises about 654 rooms plus two floors of restaurants.

As of 31 December 2007 and 2006, the hotel had been pledged as collateral for the Group's bank loans and facilities (Note 32).

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

17. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY

	2007			
	Leasehold improvements	**Furniture, fitting, fixtures and office equipment**	**Motor vehicles**	**Total**
Cost				
Beginning of year	**976**	**653**	**3,452**	**5,081**
Additions	**–**	**109**	**–**	**109**
Disposals	**–**	**(162)**	**(3,568)**	**(3,730)**
Exchange realignment	**71**	**46**	**116**	**233**
End of year	**1,047**	**646**	**–**	**1,693**
Accumulated depreciation				
Beginning of year	**848**	**570**	**1,505**	**2,923**
Depreciation charge	**31**	**34**	**–**	**65**
Disposals	**–**	**(162)**	**(1,555)**	**(1,717)**
Exchange realignment	**64**	**36**	**50**	**150**
End of year	**943**	**478**	**–**	**1,421**
Net carrying amount				
Balance, end of year	**104**	**168**	**–**	**272**
Balance, beginning of year	**128**	**83**	**1,947**	**2,158**

	2006			
	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Total
Cost				
Beginning of year	943	624	3,333	4,900
Additions	–	33	–	33
Disposals	–	(26)	–	(26)
Exchange realignment	33	22	119	174
End of year	976	653	3,452	5,081
Accumulated depreciation				
Beginning of year	651	533	1,275	2,459
Depreciation charge	173	41	182	396
Disposals	–	(23)	–	(23)
Exchange realignment	24	19	48	91
End of year	848	570	1,505	2,923
Net carrying amount				
Balance, end of year	128	83	1,947	2,158
Balance, beginning of year	292	91	2,058	2,441

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

18. INVESTMENT PROPERTIES

GROUP

	2007	2006
At beginning of year	**765,328**	48,927
Transfer from property under development for long-term investment (Note 20)	–	100,227
Transfer from prepaid land lease payments (Note 19)	–	36,550
Fair value gain (Note 8)	**942,269**	579,540
Dissolution of a subsidiary (Note 45)	–	(13,994)
Additions	**41,553**	–
Exchange realignment	**93,225**	14,078
At end of year	**1,842,375**	765,328

The investment properties as at 31 December 2007 mainly represent a three-storey shopping mall at the town area of Shanghai City with fair value of approximately HK$ 1,806 million. The period of operating leases entered into for the shopping mall range from 1 to15 years.

The valuations of investment properties are performed by management at each reporting date and reviewed at least annually by an external valuer. As at 31 December 2007, the investment properties were revalued by Sallmans (Far East) Limited, an independent professionally qualified valuer, using discounted cash flow projections.

The Group's interests in investment properties at their net book values are analysed as follows:

	2007	2006
In the PRC, held on:		
Leases of over 50 years	**1,826,356**	750,398
Leases of between 10 and 50 years	**16,019**	14,930
	1,842,375	765,328

The investment properties are pledged for bank borrowings as disclosed in Note 32.

The following amounts relating to the investment properties have been recognised in the consolidated income statement:

	2007	2006
Rental income (Note 6)	**42,156**	14,886
Direct operating expenses arising from investment properties that generate rental income	–	3,802

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

19. PREPAID LAND LEASE PAYMENTS

GROUP

	2007	2006
In the PRC, held on:		
– Leases of over 50 years	**3,224,599**	2,426,967
– Leases of between 10 and 50 years	**3,438,411**	406,651
	6,663,010	2,833,618

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2007	2006
At beginning of year	**2,833,618**	960,677
Additions	**783,413**	517,058
Acquisition of subsidiaries (Note 44)	**3,749,796**	1,716,910
Disposals with the sales of completed properties	**(557,048)**	(327,566)
Amortisation capitalised as properties under development	**(61,589)**	(25,148)
Transfer to investment properties (Note 18)	**–**	(36,550)
Disposal of subsidiary (Note 45)	**(469,886)**	–
Exchange realignment	**384,706**	28,237
At end of year	**6,663,010**	2,833,618
Analysed as:		
Non-current: In relation to properties under development for long-term investmenta and building	**1,108,527**	244,827
Current: In relation to properties held or under development for sale	**5,554,483**	2,588,791
	6,663,010	2,833,618

As of 31 December 2007 and 2006, certain of the Group's leasehold land had been pledged as collateral for the Group's bank loans and facilities, see Note 32 for details.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. PROPERTIES UNDER DEVELOPMENT FOR LONG-TERM INVESTMENT

GROUP

	2007	2006
At beginning of year	277,325	65,423
Additions (including capitalization of interest and amortisation of leasehold land)	555,695	135,303
Acquisition of a subsidiary	–	174,508
Transfer to investment properties (Note 18)	–	(100,227)
Exchange realignment	47,104	2,318
At end of year	880,124	277,325

As of 31 December 2006 and 2007, all properties under development for long term investment are located in Shenyang City, the PRC.

21. GOODWILL

GROUP

	2007	2006
Cost		
At 1 January	75,512	–
Acquisition of subsidiaries (Note 44)	330,467	75,512
Exchange realignment	16,648	–
At 31 December	422,627	75,512
Accumulated impairment		
At 1 January and 31 December	–	–
Net carrying amount		
Balance, end of year	422,627	75,512
Balance, beginning of year	75,512	–

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

22. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries

COMPANY

	2007	2006
Unlisted equity interests, at cost	**4,260,440**	2,027,472

The following is a list of the principal subsidiaries as at 31 December 2007:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2007	2006	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Xin Dong Industry Co., Ltd. ("Xin Dong")	PRC 28 May 1993	**98%**	98%	US$3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Real Estate Property Management Co., Ltd. ("Shangzhi Property Management") (i)	PRC 1 September 1995	**98.57%**	64.2%	RMB5,000,000	RMB5,000,000	Property management
Shanghai Oasis Garden Real Estate Co., Ltd. ("Oasis Garden")	PRC 29 September 1998	**98.75%**	98.75%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd. ("Wingo Infrastructure")	PRC 4 August 1999	**98.96%**	98.96%	US$20,000,000	US$20,000,000	Development of technology for housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd. ("Zhufu") (ii)	PRC 11 August 2000	**50.36%**	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd. ("Anderson Shanghai")	British Virgin Islands ("BVI") 29 September 2001	**52%**	52%	US$100	US$100	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd. ("Anderson Fuxing")	PRC 16 April 2002	**51.48%**	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd. ("Hangtou Govern")	PRC 14 June 2002	**98%**	98%	US$10,000,000	US$10,000,000	Property development

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

22. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2007	2006	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Jinwu Real Estate Co., Ltd. ("Shanghai Jinwu")	PRC 12 August 2002	**96.80%**	96.80%	US$54,962,000	US$54,962,000	Property development
Shanghai Qinhai Real Estate Co., Ltd ("Qinhai")	PRC 28 October 2002	**100%**	100%	RMB700,000,000	RMB700,000,000	Property development
Shanghai Skyway Landis Hotel Co., Ltd. ("Skyway")	PRC 9 December 2002	**56%**	56%	RMB200,000,000	RMB200,000,000	Property development
Shenyang Huarui Shiji Investment Development Limited ("Huarui Shiji investment") (iii)	PRC 22 December 2004	**51%**	51%	US$52,500,000	US$52,500,000	Property development
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management") (iii)	PRC 30 October 2007	**51%**	–	US$10,000,000	US$10,000,000	Property development
Shenyang Huajian Real Estate Co., Ltd. ("Shenyang Huajian")	PRC 3 November 2006	**100%**	100%	US$45,000,000	US$45,000,000	Property development
Shanghai Shuo Cheng Real Estate Co., Ltd. ("Shuo Cheng") (iv)	PRC 29 January 2003	**100%**	44.53%	RMB450,000,000	RMB450,000,000	Property development
Shanghai Meng Shan Real Estate Co., Ltd. ("Meng Shan")	PRC 12 June 2002	**29.91%**	–	RMB20,000,000	RMB20,000,000	Property development
Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao") (v)	PRC 4 December 2000	**70%**	–	RMB589,500,000	RMB750,000,000	Property development

22. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

The above table lists the subsidiaries of the Group 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.

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in BVI with nominal issued shares. All subsidiaries located in the PRC are limited liability entities.

(i) During the year ended 31 December 2007, the Group acquired additional equity interest in Shangzhi Property Management, which increased the Group's interest in the subsidiary from 64.2% to 98.57%.

(ii) Huarui Asset Management was established under the laws of the PRC on 30 October, 2007 as a result of the de-merger of Huarui Shiji Investment pursuant to which Huarui Asset Management was split from Huarui Shiji Investment and became a new company with a registered capital of US$10,000,000 (approximately HK$78,000,000). Huarui Asset Management is owned as to 51% by the Group.

(iii) During the year ended 31 December 2007, the Group acquired additional equity interest in Shuo Cheng, which increased Group's interest from 44.53% to 100%. The details of the business combination are disclosed in Note 44.

(iv) During the year ended 31 December 2007, the Group acquired 29.91% equity interest in Mengshan. The details of the business combination are disclosed in Note 27(f) and Note 44.

(v) During the year ended 31 December 2007, the Group acquired 70% equity interest in Liaoning Gao Xiao. The details of the business combination are disclosed in Note 44.

(b) Advances to subsidiaries

Company

Other then an unsecured advance amounting to approximately HK$74.1 million (2006: HK$71.5 million) to Anderson Shanghai which earns interest at 3% (2006: 3%) per annum and US$ 4.5 million loan to Huarui Shiji Investment, the advances to other subsidiaries were unsecured, interest free and without fixed repayment terms. Details of the advance to Anderson Shanghai are as follow:

As set out in the Company's announcement dated 29 May 2002, the Group acquired a 52% interest in Anderson Shanghai from a third party vendor. According to the shareholders' agreement, the Group and the vendor (who retained the remaining 48% interest) agreed to provide shareholders' loans to Anderson Shanghai on normal commercial terms in proportion to their respective shareholding in Anderson Shanghai, an investment holding company whose sole asset is its 99% equity interest in a property development project. As of 31 December 2007, all shareholders' loans of Anderson Shanghai amounting to approximately HK$74.1 million were provided by the Group.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

22. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)

(c) Others

	Group		Company	
	2007	2006	**2007**	2006
Prepayment for acquisition of additional equity interests in a subsidiary (i)	**41,801**	–	**41,801**	–
Equity interest remained in Meilan Huafu (ii)	**21,358**	–	**–**	–
	63,159	–	**41,801**	–

(i) On 29 June 2007, the Group as transferee and the minority shareholder of Zhufu as transferor (the "Transferor") entered into a transfer agreement (the "Transfer Agreement") pursuant to which the Group agreed to acquire and the Transferor agreed to sell the 49% interest in Zhufu for a consideration of RMB70 million (equivalent to approximately HK$66 million) payable in cash by the Group to the Transferor. Upon completion of the transaction, the Group's interest in Zhufu will increase from 51% to 100%. As of the approval date of the financial statements, this transaction is still pending the approval by the relevant authorities in Mainland China and has not yet completed. As of 31 December 2007, the Group has paid approximately HK$42 million in cash to the Transferor which was recorded as other non-current assets on the balance sheet.

(ii) During the year ended 31 December 2007, the Group's interest in Shanghai Meilan Huafu Real Estate Co., Ltd ("Meilan Huafu") decreased from 100% to 10% due to the unilateral injection of capital to Meilan Huafu from a third party investor. The remaining 10% interest, amounting to HK$21 million, was recorded as other non-current assets on the balance sheet. See Note 45 for further details.

Subsequent to the balance sheet date, in January 2008, the remaining 10% interest was sold to the same investor at a consideration of Rmb20 million (equivalent to HK$21 million). Hereafter, the Group had no interest in Meilan Huafu.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

23. INTERESTS IN A JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

GROUP

	2007	2006
Share of net asset		
Interests in a jointly-controlled entity	–	54,448
Interests in associates	972,668	495,199

The Group's account receivable and payable balances the with jointly-controlled entity and associates are disclosed in Note 46 to the financial statements.

Particulars of the Group's associates as at 31 December 2007 are set out below:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2007	2006	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC 6 May 1997	**26%**	26%	RMB100,000,000	RMB100,000,000	Research and development of housing technology
Shanghai Orda Opto-electronics Science and Technology Co., Ltd. ("Orda")	PRC 23 March 2000	**23.52%**	23.52%	RMB11,000,000	RMB11,000,000	Development and sales of photo electron products, computer hardware and software
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC 24 October 2000	**39.19%**	39.19%	RMB50,000,000	RMB50,000,000	Development and sales of netware and construction of broad band fibre projects
CNTD (a)	BVI 4 January 2006	**45.15%**	49%	US$50,935,231	US$50,935,231	Land infrastructure development

23. INTERESTS IN A JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (continued)

(a) Reorganisation involving Golden Luodian and CNTD

During the year ended 31 December 2006, the Group entered into an agreement with a foreign investor of Golden Luodian ("Foreign Investor") and CNTD (the "Agreement"). Pursuant to the Agreement in conjunction with a reorganisation in December 2006 to pave the way for the public listing of CNTD, the Group and the Foreign Investor disposed of their respective 45.26% and 27.37% equity interest in Golden Luodian for 4,900 CNTD shares (49% equity interest) and convertible notes of CNTD with a principal amount of US$12,173,833.93 (equivalent to HK$94,712,428.98) and a conversion price of US$3,443.80 (equivalent to HK$26,792.76) per CNTD share (the "Convertible Notes"), and 5,100 CNTD shares (51% equity interest) respectively.

Unless converted at the option of the Group on the earlier of (a) the date when dealings in CNTD shares first commence on a recognised exchange, as defined in the Agreement, and (b) the second anniversary of the date of issue of the Convertible Notes (the "maturity date"), the convertible notes will be redeemed at 100 percent of their principal amount on the maturity date.

Upon completion of the Agreement but prior to conversion of the Convertible Notes, the Group's attributable interest in Golden Luodian decreased from 45.26% to 35.59% which was accounted for as a disposal of 9.67% interest in Golden Luodian. The Group's attributable interest in Golden Luodian would return to 45.26% upon exercising the conversion option for the 3,535 CNTD shares (assuming no other transactions involving shares before conversion occurs) pursuant to the terms of the Convertible Notes.

A gain on disposal of approximately HK$189,098,000 was recorded as "other gains-net" in the consolidated income statement (Note 8) for the year ended 31 December 2006 The Convertible Notes were recorded as "financial assets at fair value through profit or loss" in the consolidated balance sheet (Note 24) as at 31 December 2006.

On 14 November 2007, CNTD became a listed company on the Singapore Stock Exchange Limited. Pursuant to the Agreement, CNTD allotted and issued 265,125,000 shares (equivalent to the original 3,535 shares before share split of CNTD) to the Company pursuant to the conversion of the Convertible Notes. As a result, the Group's interest in CNTD and attributable interest in Golden Luodian decreased from 49.0% to 45.15% and from 35.59% to 32.79%, respectively. A gain on disposal (including changes in fair value of the Convertible Notes prior to the conversion) of approximately HK$294 million was recognised (Note 8) in the income statement for the year ended 31 December 2007.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

23. INTERESTS IN A JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (continued)

(b) Extracts of financial information of a jointly-controlled entity and principal associates

The following table illustrates the financial information of the Group's a jointly controlled entity and principal associates as extracted from their financial statements:

(i) CNTD and Golden Luodian

	2007	2006
Assets and liabilities in the consolidated financial statements of CNTD and its subsidiaries (including Golden Luodian)		
Current assets	**5,307,140**	2,191,929
Non-current assets	**2,834,912**	2,519,443
Current liabilities	**(4,658,793)**	(990,254)
Non-current liabilities	**(631,153)**	(3,060,332)
Net assets	**2,852,106**	660,786
Attributable to:		
Minority interest	**534,930**	308,234
Equity holders of CNTD	**2,317,176**	352,552
	2,852,106	660,786

	2007 **CNTD's consolidated results (including Golden Luodian as a subsidiary of CNTD)**	2006 Golden Luodian's consolidated results (before Golden Luodian became subisidiary of CNTD)*
Results		
Revenue and other income	**488,745**	750,092
Total expense	**(787,905)**	(764,836)
Tax	**19,312**	4,958
Losses after tax	**(279,848)**	(9,786)
Attributable to:		
Minority interest	**15,784**	(60)
Equity holders	**(295,632)**	(9,726)
	(279,848)	(9,786)

* This is based on the financial statements of the Golden Luodian for the year ended 31 December 2006. After the reorganisation on 20 December 2006, Golden Luodian became a subsidiary of CNTD (which had no operations before the reorganization), hence the financial statements of Golden Luodian have been consolidated in the consolidated financial statements of the CNTD.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

23. INTERESTS IN A JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (continued)

(b) Extracts of financial information of a jointly-controlled entity and principal associates (continued)

(ii) Broadband

	2007	2006
Assets	**240,616**	248,561
Liabilities	**(138,558)**	(168,265)
Revenues	**84,320**	75,565
Profit	**15,323**	9,698

(iii) Shuo Cheng

	2006
Assets	3,098,226
Liabilities	(2,673,125)
Revenues	–
Net loss	(18,049)

The financial statements of Shuo Cheng have been consolidated in the consolidated financial statements of the Group as Shuo Cheng became a subsidiary of the Group during the year ended 31 December 2007.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

GROUP

Financial assets at fair value through profit or loss represented the Convertible Notes issued by CNTD to the Group (see Note 23(a)).

The Convertible Notes contained one embedded derivative – conversion option. The Group has designated the entire hybrid Convertible Notes as "financial assets at fair value through profit or loss", rather than separating the conversion option from the host contract.

Financial assets at fair value through profit or loss were initially recognised at fair value. As the Convertible Notes were not traded in an active market, the Company engaged BMI Appraisals Limited, an independent and professionally qualified valuer, to establish the fair value by using valuation techniques.

The Convertible Notes were converted to shares in CNTD in November 2007, further details of which were set out in Note 23(a) to financial statement.

25. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	2007	2006
At cost		
– In Shanghai City, the PRC	3,238,752	2,115,706
– In Shenyang City, the PRC	870,771	259,602
	4,109,523	2,375,308

As of 31 December 2007 and 2006, certain of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank loans and facilities, see Note 32 for details.

26. PREPAYMENTS, AND OTHER CURRENT ASSETS

	Group		Company	
	2007	2006	2007	2006
Prepaid business tax (Note 37)	37,677	39,816	–	–
Prepayments of sales commission to real estate agency	–	12,116	–	–
Prepayment for equipment purchase	33,252	10,320	–	–
Contract work-in-progress	–	8,200	–	–
Others	7,962	3,727	638	–
	78,891	74,179	638	–

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

27. OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
Guarantee deposits for currency swaps (a)	–	53,272	–	53,272
Amounts due from Lucky Charming Enterprises Limited ("LCE") (b)	**20,743**	168,631	–	–
Earnest money paid to a third party for future cooperation (c)	**202,905**	–	–	–
Receivables in connection with acquisition of Konmen Investment Limited (d)	**513,084**	–	–	–
Reimbursable amounts from construction companies	**18,507**	11,064	–	–
Deposit paid to an agency to bid for a parcel of land (e)	**170,867**	–	–	–
Others	**180,358**	19,822	**252**	2,691
	1,106,464	252,789	**252**	55,963

(a) A credit support agreement was subscribed by the Group as annex to the derivative financial instruments entered into with external banks (Note 36). Under the credit support agreement, the Group was required to place a guarantee deposit, which would be used for the settlement of derivative liabilities, if any, arsing from a decline in the value of the derivative. As at 31 December 2006, the Group paid guarantee deposit of US$ 6.8 million (equivalent to approximately HK$53.2 million) to the bankers pursuant to this credit support annex. As at 31 December 2007, the guarantee deposit had been released in connection with agreements entered into during the year to unravel the derivative financial instruments that had been entered into.

(b) Amounts due from LCE, a minority shareholder of a subsidiary of the Group, were interest free and without fixed repayment terms. Subsequent to the balance sheet date this amounts were fully repaid by LCE in April, 2008.

(c) On 12 December 2007, the Group signed a letter of intent with a third party company (the "Cooperator") whereby both parties agreed to jointly develop a project on the presumption that the Cooperator can obtain the right to develop the project from another party through a separate transaction. In connection with this cooperation, the Group paid earnest money amounting to RMB190 million to the Cooperator. The earnest money was interest free. Subsequent to the balance sheet date, in March 2008, the earnest money was fully recovered as the Cooperator failed to obtain the right to develop the project.

27. OTHER RECEIVABLES (continued)

(d) On 17 August 2007, SRE Investment Holding Limited (formerly known as "Good Time Resources Limited", a substantial shareholder of the Company, see Note 46, or the "Vendor") and an independent third party (the "Original Shareholder") entered into an acquisition agreement (the "Vendor Acquisition Agreement"), pursuant to which the Vendor agreed to purchase, from the Original Shareholder, the entire issued share capital (the "Sale Share") of Konmen Investment Limited ("Konmen"), which in turn holds 70% interest in Liaoning Gao Xiao, for a consideration of HK$1,600 million.

On the same date, the Vendor and a subsidiary of the Company (the "Purchaser") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser agreed to purchase the Sale Share from the Vendor for a consideration of HK$1,600 million. Pursuant to the Acquisition Agreement, the consideration was satisfied by the Company issuing 526,315,789 shares at a price of HK$ 3.04 per share, representing approximately 23.80% of the then existing issued share capital of the Company and approximately 19.22% of the issued share capital of the Company as enlarged by the newly issued shares. The market share price on the acquisition date was HK$ 3.36 per share.

On 15 November 2007, a supplemental agreement was entered into between the Vendor, the Company, the Purchaser, the Original Shareholder and Konmen dated 15 November 2007 (the "Supplemental Agreement").

Liaoning Gao Xiao is the developer of two properties (the "Properties") and has also successfully won the bid in August 2007 for the acquisition of a parcel of land (the "Land") with a site area of approximately 153,696 square meters. Both the Properties and the Land are located at Shenyang City, the PRC. The total purchase cost of the Land including demolition and relocation costs that would be incurred is estimated at RMB1,192,680,960 (the "Land Purchase Cost"). Also, Liaoning Gao Xiao had assets (the "Assets") other than the Land and the unsold part of Properties, and other liabilities (the "Liabilities"), at completion of the acquisition.

According to the above agreements, the Original Shareholder agreed to pay Liaoning Gao Xiao the Land Purchase Cost, to bear the Liabilities and to reimburse Liaoning Gao Xiao the relevant amounts payable in respect of the Liabilities, to the extent that they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. If the amounts paid by the Original Shareholder is made to the Vendor, the Vendor agreed to transfer such amounts to the Group. The Original Shareholder is also entitled to receive the Assets from the Group through the Vendor, to the extent that such assets have not been paid to the Original Shareholder and/or the shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao.

Pursuant to the above agreements, the Vendor has also undertaken to the Purchaser that, it shall pay the Liaoning Gao Xiao of the Land Purchase Cost and it shall bear the Liabilities and undertakes to reimburse Liaoning Gao Xiao the relevant amounts payable in respect of the Liabilities, to the extent they have not been paid for by the Original Shareholder and and/or the other shareholders who hold the remaining 30% equity interest in Liaoning Gao Xiao. In addition, in the event Liaoning Gao Xiao fails to obtain the relevant land use right to the Land by 30 June 2009, the Vendor undertakes that it will pay the Company HK$1,600 million in cash on or before 30 December 2009.

In connection with the above, RMB515 million (HK$549 million) were received by the Group during 2007 as of 31 December 2007, the outstanding receivable in respect of this transaction amounted to RMB 480 million (HK$513 million).

(e) On 12 December 2007, the Group signed a letter of intent with a third party agency whereby the Group engaged the agency to bid for a parcel of land. In connection with this transaction, the Group paid a deposit amounting to HK$171 million to the agency. The deposit was interest free. Subsequent to the balance sheet date, in February 2008, the deposit was fully recovered as the agency did not win the bid.

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.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

28. ACCOUNT RECEIVABLE

GROUP

	2007	2006
Accounts receivable	**65,751**	22,163
Less: Provision for doubtful accounts	**(10,934)**	(1,977)
	54,817	20,186

An aging analysis of accounts receivable is set out below:

	2007	2006
Within 1 year	**53,238**	10,067
1-2 years	**1,579**	10,119
Over 2 years – impaired	**10,934**	1,977
	65,751	22,163

The receivables that are aged within 2 years are neither past due nor impaired, they mainly relate to receivables from customers with reasonably good credit worthiness. There is no significant collateral or other credit enhancements over these balances.

The movements in provision for impairment of account receivable are as follows:

	2007	2006
At beginning of year	**1,977**	–
Impairment losses recognised (Note 9)	**10,934**	1,977
Amount written off as uncollectible	**(1,977)**	–
At end of year	**10,934**	1,977

Included in the above provision for impairment of account receivable is a provision for individually impaired trade receivables of approximately HK$11 million (2006: approximately HK$2 million) with a carrying amount of HK$11 million (2006: HK$2 million). The individually impaired accounts receivables are outstanding for 2 years and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

29. CASH AND BANK BALANCES

	Group		Company	
	2007	2006	**2007**	2006
Cash in hand	**1,570**	417	**12**	217
Demand and notice deposits	**1,850,199**	1,010,326	**269,470**	61,089
Cash and cash equivalents	**1,851,769**	1,010,743	**269,482**	61,306
Pledged bank deposits (a)	**85,494**	11,068	**–**	–
Restricted bank deposits	**2,096**	4,093	**–**	–
Cash and bank balances	**1,939,359**	1,025,904	**269,482**	61,306

(a) As at 31 December 2007, bank deposits of approximately HK$85 million were restricted in connection with the bank borrowing (2006: approximately HK$11 million were restricted in connection with other banking facilities).

The carrying amount of the cash and bank which are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$
	equivalent	equivalent	**equivalent**	equivalent
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**263,207**	45,330	**251,732**	45,218
US$	**34,398**	71,083	**17,750**	16,088
RMB	**1,641,754**	909,491	**–**	–
	1,939,359	1,025,904	**269,482**	61,306

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

29. CASH AND BANK BALANCES (continued)

Demand deposits earn interest at floating rates based on daily bank deposit rates. Notice deposits are made for varying with period of between one day and seven days depending on the immediate cash requirements of the Group, and earn interest at the respective notice deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

30. SHARE CAPITAL

GROUP AND COMPANY

		Amount		
	Number of shares (thousands)	**Ordinary shares**	**Share premium**	**Total**
At 1 January 2006				
As previously reported	1,509,830	150,983	708,088	859,071
Effect of prior year adjustments (Note 2)	–	–	13,943	13,943
As restated	1,509,830	150,983	722,031	873,014
Allotment of shares upon exercise of share options (a)	1,500	150	1,150	1,300
Issue of scrip dividends (b)	22,925	2,293	34,892	37,185
Issue of shares upon conversion of convertible bonds (c)	398,805	39,880	588,989	628,869
Issue of shares – placement (d)	212,000	21,200	481,018	502,218
At 31 December 2006	2,145,060	214,506	1,828,080	2,042,586

		Amount		
	Number of shares (thousands)	**Ordinary shares**	**Share premium**	**Total**
At 1 January 2007				
As previously reported	2,145,060	214,506	1,656,624	1,871,130
Effect of prior year adjustments (Note 2)	–	–	171,456	171,456
As restated	2,145,060	214,506	1,828,080	2,042,586
Issue of scrip dividends (b)	9,061	906	22,742	23,648
Issue of shares upon conversion of convertible bonds (c)	57,407	5,740	115,932	121,672
Issue of shares – acquisition of a subsidiary (e)	526,316	52,632	1,715,789	1,768,421
At 31 December 2007	2,737,844	273,784	3,682,543	3,956,327

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

30. SHARE CAPITAL (continued)

The total authorised number of ordinary shares is 4,000 million shares (2006: 4,000 million shares) with a par value of HK$0.10 per share (2006: HK$0.10 per share). All issued shares are fully paid.

(a) The share option scheme was approved at a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion at any time during the ten years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and will be determined according to the higher of (i) the average official closing price of the shares on the SEHK for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the shares on the SEHK on the relevant offer date. Options granted becomes vested immediately and are not conditional on employees' service period. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee and unless the Board shall otherwise resolve in relation to any option at the time of grant, such period of time should not exceed 3 years commencing from the expiry of six months after the date on which the option is accepted and expiring on the last day of such period or 11 November 2009, whichever is the earlier.

The share options exercised in 2006 resulted in the issuance of 500,000 shares and 1,000,000 shares at HK$0.94 and HK$0.83 per share respectively. No share options were outstanding as at 31 December 2007 and 2006.

(b) Pursuant to a resolution passed at the general meeting on 7 May 2007, the Company offered to its shareholders scrip dividends equivalent to HK$0.02 per ordinary share of HK$0.10 with an alternative to its shareholders to elect to receive the dividend in cash in lieu of all or part of their scrip dividend entitlements (see Note 15). As a result, the following additional shares were issued during the year.

	Number of new ordinary shares issued	Issue price per ordinary share	Issue date
In respect of final dividends for the year ended 31 December 2006	9,060,637	HK$2.61	22 June 2007

(c) During the year ended 31 December 2007 and 2006, the following convertible bonds issued by the Company have been converted by the bondholders at the respective conversion prices and the following ordinary shares have been issued:

	CB 2 at conversion price of HK$ 1.35 per ordinary share	
Issue date of ordinary shares	**Face value of convertible bonds**	**Number of new ordinary shares issued**
January 2007	5,000,000	3,703,703
March 2007	8,000,000	5,925,925
May 2007	44,500,000	32,962,960
June 2007	10,000,000	7,407,407
July 2007	10,000,000	7,407,407
Total	77,500,000	57,407,402

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

30. SHARE CAPITAL (continued)

Issue date of ordinary shares	CB 1 at conversion price of HK$1.116 per ordinary share		CB 2 at conversion price of HK$ 1.35 per ordinary share	
	Face value of convertible bonds	Number of new ordinary shares issued	Face value of convertible bonds	Number of new ordinary shares issued
January 2006	11,000,000	9,856,630	–	–
February 2006	62,000,000	55,555,551	–	–
March 2006	102,000,000	91,397,842	–	–
April 2006	43,000,000	38,530,464	181,000,000	134,074,071
May 2006	–	–	8,000,000	5,925,925
July 2006	8,000,000	7,168,458	–	–
September 2006	–	–	8,000,000	5,925,925
November 2006	–	–	31,000,000	22,962,961
December 2006	–	–	37,000,000	27,407,406
Total	226,000,000	202,508,945	265,000,000	196,296,288

(d) On 5 December 2006, SRE Investment Holding Limited, Mr. Shi Jian and the Company entered into the Placing Agreement with the Citigroup Global Markets Hong Kong Futures and Securities Limited (the "Placing Agreement"). Under the Placing Agreement, SRE Investment Holding Limited has conditionally agreed to subscribe for 212,000,000 new shares, representing approximately 11.12% of the issued share capital of the Company prior to the placement and approximately 10.01% of the issued share capital of the Company as enlarged by the subscription. The subscription price for the new shares was HK$2.42 per Share. The issuance cost was approximately HK$10,822,000.

(e) The Company issued 526,315,789 shares in connection with the acquisition of Konmen. Further details of the acquisition are included in Note 44(b) to the financial statements.

31. 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 of the financial statements.

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory accounts. All statutory reserves are created for specific purposes.

Companies within the Group, which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the board of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profits, a company may make further contribution to the surplus reserve using its post-tax profits in accordance with a resolution of the board of directors.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

31. RESERVES (continued)

(b) Company

	Share option reserve	Exchange fluctuation reserve	Equity component of convertible bonds	Retained profits/ (Accumulated losses)	Total
Balance at 1 January 2006					
As previously reported	248	(233)	28,443	72,263	100,721
Effect of prior year adjustments (Note 2)	–	–	(28,443)	(36,717)	(65,160)
As restated	248	(233)	–	35,546	35,561
Exchange realignment	–	46,738	–	–	46,738
Total income for the year recognised directly in equity	–	46,738	–	–	46,738
Loss for the year	–	–	–	(145,760)	(145,760)
Total income for the year	–	46,738	–	(145,760)	(99,022)
Dividends relating to 2005					
– Cash dividends (Note 15)	–	–	–	(42,921)	(42,921)
– Share dividends (Note 30)	–	–	–	(37,185)	(37,185)
Balance at 31 December 2006	248	46,505	–	(190,320)	(143,567)

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

31. RESERVES (continued)

(b) Company (continued)

	Share option reserve	Exchange fluctuation reserve	Equity component of convertible bonds	Retained profits/ (Accumulated losses)	Total
Balance at 1 January 2007					
As previously reported	248	47,431	1,208	44,926	93,813
Effect of prior year adjustments (Note 2)	–	(926)	(1,208)	(235,246)	(237,380)
As restated	248	46,505	–	(190,320)	(143,567)
Exchange realignment	–	215,984	–	–	215,984
Total income for the year recognised directly in equity	–	215,984	–	–	215,984
Profit for the year	–	–	–	330,987	330,987
Total income for the year	–	215,984	–	330,987	546,971
Dividends relating to 2006					
– Cash dividends (Note 15)	–	–	–	(19,446)	(19,446)
– Share dividends (Note 30)	–	–	–	(23,648)	(23,648)
Balance at 31 December 2007	248	262,489	–	97,573	360,310

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

GROUP AND COMPANY

	Group		Company	
	2007	2006 (Restated)	**2007**	2006 (Restated)
Short-term bank borrowings				
– Secured	**956,856**	263,760	–	–
– Unsecured	–	75,000	–	75,000
Other short-term borrowings				
– Unsecured	–	17,916	–	–
Total short-term borrowings	**956,856**	356,676	–	75,000
Long-term bank borrowings				
– Secured	**2,640,219**	1,410,522	**296,554**	289,790
Other long-term borrowings				
– Unsecured	**196,706**	–	**196,706**	–
Total long-term borrowings	**2,836,925**	1,410,522	**493,260**	289,790
The long-term bank borrowings are repayable as follows:				
– Within 1 year	**207,714**	380,364	**142,182**	289,790
– Between 1 and 2 years	**1,060,050**	84,602	**139,503**	
– Between 2 and 3 years	**757,764**	945,556	**125,128**	–
– Between 3 and 5 years	**811,397**	–	**86,447**	–
	2,836,925	1,410,522	**493,260**	289,790
Less: long-term borrowings, current portion	**(207,714)**	(380,364)	**(142,182)**	(289,790)
Long-term borrowings	**2,629,211**	1,030,158	**351,078**	–

Short-term bank borrowings-secured

As at 31 December 2007, approximately HK$717 million of short-term bank loan (2006: HK$40 million) was secured by a pledge of the Group's leasehold land and certain bank deposits (Note 29).

As at 31 December 2007, approximately HK$240 million of short-term bank loan (2006: HK$224 million) was secured by a joint guarantee provided by the Company and one subsidiary of the Group.

Other short-term borrowings-unsecured

As at 31 December 2006, approximately HK$18 million of unsecured short-term borrowings were borrowed from a stated-owned assets management company. This borrowing was fully repaid during the year ended 31 December 2007.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

GROUP AND COMPANY

Long-term bank borrowings-secured

As at 31 December 2007, long-term bank borrowings of approximately HK$2,640 million (2006: approximately HK$1,120 million) were secured by pledge of the Group's leasehold land, together with properties held or under development for sale and construction-in-progress.

Other long-term borrowings-unsecured

As at 31 December 2007, approximately HK$197 million of unsecured long-term borrowings were borrowed from external bankers in connection with the terminating of the cross currency swaps entered into during the year ended 31 December 2007 (Note 36).

Overall collateral arrangements for bank borrowings

As at 31 December 2007, bank deposits of approximately HK$85 million (2006: nil) (Note29), leasehold land of approximately HK$649 million (2006: approximately HK$430 million) (Note 19), investment properties of approximately HK$1,806 million (Note 18), and properties held or under development for sale of approximately HK$2,244 million (2006: approximately HK$990 million) (Note 26), together with Hotel Properties of approximately HK$1,223 million (2006: approximately HK$1,119 million) (Note 17), were mortgaged as collateral for the Group's short-term bank borrowings, long-term bank borrowings and banking facilities disclosed in the preceding paragraphs.

The effective interest rates for these borrowings at the balance sheet date were as follows:

		2007			2006	
	HK$	US$	RMB	HK$	US$	RMB
Short-term bank borrowings	–	–	6.6760%	5.5000%	–	6.1227%
Other short-term borrowings	–	–	–	–	–	5.5200%
Long-term bank borrowings	6.6342%	–	7.5525%	–	7.2500%	6.5552%
Other long-term borrowings	–	6.0059%	–	–	–	–

As bank loans are all borrowed at prevailing market interest rate, which would be adjusted from time to time in line with interest rate changes in the market. The carrying amounts of the bank loans therefore approximate their fair value.

The carrying amounts of borrowings are denominated in the following currencies:

	Group		Company	
	2007	2006	2007	2006
HK$	593,658	75,000	296,555	75,000
US$	196,706	289,789	196,705	289,790
RMB	3,003,417	1,402,409	–	–
	3,793,781	1,767,198	493,260	364,790

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The Group had the following undrawn credit facilities as of the balance sheet date:

	2007	2006
Floating rate loan facilities		
– expiring within 1 year	**116,403**	25,000
– expiring beyond 1 year	**154,558**	179,158
	270,961	204,158

33. GUARANTEED NOTES

GROUP AND COMPANY

	US$'000
Face value of Guaranteed Notes	200,000
Less: issuance expenses	(6,841)
Fair value on initial recognition	193,159

	2007		2006	
		HK$ equivalent		HK$ equivalent
	US$'000	**HK$'000**	US$'000	HK$'000
At beginning of year	**196,816**	**1,535,167**	–	–
Issuance	**–**	**–**	193,159	1,549,828
Foreign exchange gain	**–**	**(319)**	–	(43,188)
Add: interest expense (Note 10)	**18,029**	**140,724**	12,282	95,802
Less: payment of interest expense	**(17,250)**	**(134,644)**	(8,625)	(67,275)
At ending of year	**197,595**	**1,540,928**	196,816	1,535,167

On 24 April 2006, the Company issued guaranteed notes maturing on 24 April 2013 (the "Maturity Date"), with an aggregate principal amount of US$ 200 million and fixed interest rate of 8.625% per annum (the "Guaranteed Notes"). The Guaranteed Notes are guaranteed by all of investment holding subsidiaries of the Company which are not incorporated in the PRC, other than Anderson Land (Shanghai) Limited.

33. GUARANTEED NOTES (continued)

Interests of the Guaranteed Notes are payable semi-annually in arrear on 24 April and 24 October in each year commencing from 24 October 2006. With regard to the principal amount, the Company has the following redemption options:

a) prior to 24 April 2009, redeem on one or more occasions up to 35% of the aggregate principal amount of the Guaranteed Notes originally issued, at a redemption price of 108.625% of principal amount, plus accrued and unpaid interest to the redemption date, or

b) at any time or from time to time prior to the Maturity Date, redeem all or part of the Guaranteed Notes at a redemption price equal to 100% of the principal amount thereof plus an applicable premium plus accrued and unpaid interest to such redemption date.

On 25 April 2006, the Guaranteed Notes were listed on The HKEx.

Interest expense on Guaranteed Notes are calculated using the effective interest method by applying the effective interest rate of 9.30% per annum.

34. CONVERTIBLE BONDS – HOST DEBTS

GROUP AND COMPANY

On 3 May 2004, the Company issued zero coupon convertible bonds ("CB1") maturing on 3 May 2009 (the "Maturity Date"), in the aggregate principal amount of HK$302 million with a conversion price of HK$1.116 per ordinary share of the Company. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 111.63 percent of their principal amount on the Maturity Date. When the holders exercise the conversion rights of CB1, the Company has an option to pay amount in cash that approximates to the market value of the shares that can be converted.

On 9 November 2005, the Company issued convertible bonds ("CB2") maturing on 9 November 2010 (the "Maturity Date"), in the aggregate principal amount of HK$386 million with an initial conversion price of HK$1.35 per ordinary share of the Company (subject to future one time adjustment on 9 November 2006). The coupon interest rate of this bond is 3.5% per annum, which is paid in advance at the beginning of each year. In the event of conversion or early redemption, there would be no claw back of such prepayment of interest. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 110 percent of their principal amount on the Maturity Date. When the holders exercise the conversion rights of CB2, the Company has an option to pay amount in cash that approximates to the market value of the shares that can be converted.

Since the conversion options embedded in CB1 and CB2 do not meet the definition of equity instruments of the Company, the entire convertible bonds are accounted for as financial liabilities, and separated into host debt component and embedded derivative components. The embedded derivatives are accounted for as financial liabilities at fair value through profit or loss. The host debt components are initially recognised as the excess of proceeds over the amount initially recognized as the derivative components, net of related transaction costs, and are subsequently measured at amortised cost.

As at 31 December 2007 and 2006, the fair value of the derivative financial instruments was determined by BMI Appraisals Limited using the Generally Accepted Valuation Methodologies, including, but not limited to, Binomial Option Pricing Model and Black Schole's Model.

Interest expenses on CB1 and CB2 are calculated using the effective interest method by applying the effective interest rate of 4.89% and 14.10% to the host debt component, respectively.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

34. CONVERTIBLE BONDS – HOST DEBTS (continued)

As at 31 December 2007 and 2006, the carrying amount of liability component of CB2 was recorded under current liabilities, as CB2 may be redeemed at the option of the relevant holders starting from 9 November 2007.

Conversion of CB1 and CB2

During the year ended 31 December 2006, CB1 with a face value HK$226,000,000 were converted into 202,508,945 ordinary shares of the Company (Note 30). There was no outstanding CB1 as at 31 December 2006.

During the year ended 31 December 2007, CB2 with a face value HK$77,500,000 (2006: HK$265,000,000) were converted into 57,407,402 ordinary shares (2006: 196,296,288 ordinary shares) of the Company (Note 30).

For CB2, the face value of the outstanding bonds at 31 December 2007 amounted to HK$43,500,000 (2006: HK$121,000,000).

When converted, the carrying amounts of both the host debts and embedded derivatives of CB1 and CB2 relating to the portion that were converted, were transferred to share capital from liability at their carrying amount.

The convertible bonds recognised on initial recognition are as follows:

	CB 1	CB 2	Total
Face value of convertible bonds issued	302,000	386,000	688,000
Issuance expense	(11,160)	(19,811)	(30,971)
Initial embedded derivative component	(25,327)	(93,906)	(119,233)
Host debt component on initial recognition upon issuance	265,513	272,283	537,796

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

34. CONVERTIBLE BONDS – HOST DEBTS (continued)

The movment of host debt component for the year ended 31 December 2007 and 2006 are as follows:

	2006 (restated)		
	CB 1	CB 2	Total
Host debt component at 1 January 2006	215,110	263,681	478,791
Interest expense (Note 10)	2,084	23,034	25,118
Payment of interest	–	(6,615)	(6,615)
Amount converted to ordinary shares of the Company (Note 30)	(217,194)	(190,106)	(407,300)
Host debt component at 31 December 2006	–	89,994	89,994
Less: amount included under current liabilities	–	89,994	89,994
Amount included under non-current liabilities	–	–	–

	2007		
	CB 1	**CB 2**	**Total**
Host debt component at 1 January 2007	–	**89,994**	**89,994**
Interest expense (Note 10)	–	**7,349**	**7,349**
Payment of interest	–	**(1,522)**	**(1,522)**
Amount converted to ordinary shares of the Company (Note 30)	–	**(60,458)**	**(60,458)**
Host debt component at 31 December 2007	–	**35,363**	**35,363**
Less: amount included under current liabilities	–	**35,363**	**35,363**
Amount included under non-current liabilities	–	–	–

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

34. CONVERTIBLE BONDS – HOST DEBTS (continued)

The fair value movements for derivative financial liabilities embedded in CB1 and CB2 for the year ended 31 December 2007 and 31 December 2006 are as follows:

	CB 1	CB 2	Total
Initial recognition upon issuance of bonds	25,327	93,906	119,233

		2007	
	CB 1	**CB 2**	**Total**
At beginning of year	–	**93,276**	**93,276**
Fair value changes recognised in the income statement (Note 8)	–	**(12,458)**	**(12,458)**
Conversion to shares	–	**(61,214)**	**(61,214)**
At ending of year	–	**19,604**	**19,604**

		2006 (restated)	
	CB 1	CB 2	Total
At beginning of year	42,975	93,748	136,723
Fair value changes recognised in the income statement (Note 8)	38,304	139,818	178,122
Conversion to shares	(81,279)	(140,290)	(221,569)
At ending of year	–	93,276	93,276

Those multiple embedded derivatives (written put option, and written conversion option etc, that are not independent of each other) in a single instrument that are not closely related to the host contract are treated as a single compound embedded derivative. They are presented as derivative financial liabilities (see Note 36).

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

35. DEFERRED TAX

GROUP

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, to be levied by the same tax authority and the same taxable entity.

The gross movements on the deferred tax account are as follows:

	2007	2006
At beginning of year	(275,047)	14,701
Recognised in equity	2,567	–
Acquisition of subsidiaries (Note 44)	(392,696)	(74,596)
Recognised in the income statements (Note 13)	(51,225)	(214,594)
Dissolution of a subsidiary (Note 45)	–	2,813
Exchange differences	(38,954)	(3,371)
At end of year	(755,355)	(275,047)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

Deferred tax assets:

	Tax losses carried forward	Tax losses carried forward arising from business combination	Others	Total
At 1 January 2006	17,763	–	1,322	19,085
Recognised in the income statement	(7,210)	–	(1,345)	(8,555)
Acquisition of subsidiaries	–	4,476	–	4,476
Exchange differences	502	–	23	525
At 31 December 2006	11,055	4,476	–	15,531
Recognised in the income statement	(7,801)	(8,934)	–	(16,735)
Acquisition of subsidiaries (Note 44)	–	4,300	–	4,300
Exchange differences	493	158	–	651
At 31 December 2007	3,747	–	–	3,747

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

35. DEFERRED TAX (continued)

Deferred tax liabilities:

	Fair value gains	Fair value gains arising from business combination	Others	Total
At 1 January 2006	3,023	–	1,361	4,384
Recognised in the income statement	191,248	–	14,791	206,039
Acquisition of subsidiaries	–	79,072	–	79,072
Dissolution of a subsidiary	(2,813)	–	–	(2,813)
Exchange differences	3,586	–	310	3,896
At 31 December 2006	195,044	79,072	16,462	290,578
Recognised in equity	–	(2,567)	–	(2,567)
Recognised in the income statement	155,293	(122,330)	1,527	34,490
Acquisition of subsidiaries (Note 44)	–	396,996	–	396,996
Exchange differences	20,130	18,217	1,258	39,605
At 31 December 2007	370,467	369,388	19,247	759,102

Represented by:

	2007	2006
Deferred tax assets	–	8,122
Deferred tax liabilities	**(755,355)**	(283,169)
	(755,355)	(275,047)

Deferred tax assets mainly represent the tax effect of temporary differences arising from tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Deferred tax liabilities mainly represent the tax effect of temporary differences arising from revaluation gain of investment properties and business combination.

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

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

36. DERIVATIVE FINANCIAL LIABILITIES

GROUP AND COMPANY

	2007	2006 (Restated)
Embedded derivatives in CB2 (Note 34)	**19,604**	93,276
Fixed to fixed cross currency swaps (a)	**–**	232,852
	19,604	326,128

The derivative financial liabilities are reported at their fair values.

(a) Fixed to fixed cross currency swaps

	2007	2006
Beginning of year	**232,852**	–
Periodical settlement of the swaps	**–**	21,491
Fair value loss recognised in the income statement (Note 8)	**64,283**	211,361
Transfer to interest-bearing bank and other borrowings	**(297,135)**	–
End of year	**–**	232,852

During the year ended 31 December 2006, the Company entered into four fixed-for-fixed cross currency (USD/RMB) swaps (the "Swaps") with two banks with an aggregate principal amount of US$200 million.

As at 31 December 2006, the fair value of the Swaps was revalued by the banks using the cash flow discount model.

Upon when the Company entered into agreements with these two banks to terminate the Swaps during the year ended 31 December 2007, the fair value loss of the Swaps was HK$297 million. In connection with termination, the Company agreed to pay these two banks in instalments in USD an amount with a present value equal to HK$297 million, which was accounted for as interest-bearing bank and other borrowings. As of 31 December 2007, the carrying amount of this borrowing was HK$197 million (Note 32).

Interest expenses on this borrowing are calculated using the effective interest method by applying the effective interest rate of 6.01% per annum.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

37. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

GROUP

	2007	2006
Advances received from pre-sale of properties under development	**2,392,775**	963,755

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest bearing. Business tax, generally calculated at a rate of 5% on advances received, are imposed by the tax authorities.

38. ACCOUNTS PAYABLE

GROUP

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

	2007	2006
Within 1 year	**1,341,902**	854,779
1-2 years	**253,498**	5,175
Over 2 years	**802**	747
	1,596,202	860,701

Accounts payable represents payables arising from property constructions. Accounts payable with aging of more than one year generally represent retention moneys held by the Group in connection with various property projects.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

39. OTHER PAYABLES AND ACCRUALS

GROUP AND COMPANY

	Group		Company	
	2007	2006	**2007**	2006
Payables for prepaid land lease payments	**1,104,510**	719,135	**–**	–
Deposits received from customers and construction companies	**333,834**	36,575		
Advance from related parties of a former minority shareholder	**233,901**	111,092	**–**	–
Business tax and surtaxes payable	**132,274**	15,880	**–**	–
Advances from third parties	**74,452**	–		
Advance received for disposal of remaining interest in Meilan Huafu (Note 22(c))	**21,651**	–	**–**	–
Interest payable to former minority shareholder of Shuo Cheng, a subsidiary	**23,166**	–	**–**	–
Dividends payable to minority shareholders of subsidiaries	**15,960**	13,186	**–**	–
Others	**133,163**	37,202	**4,297**	3,403
	2,072,911	933,070	**4,297**	3,403

40. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit for the year to net cash inflow generated from operations:

	2007	2006
Profit for the year	**1,028,208**	371,889
Adjustments for:		
Tax	**641,960**	730,965
Depreciation and impairment of property, plant and equipment (Note 17)	**34,429**	5,574
Impairment of goodwill (Note 9)	**–**	2,468
Impairment of accounts receivable (Note 28)	**10,934**	1,977
Excess of fair value of identifiable assets over the cost of business combination (Note 8)	**(112,170)**	(17,266)
Loss on disposal of property, plant and equipment (Note 8)	**175**	379
Loss from transaction with minority interest (Note 8)	**–**	118,224
Fair value loss on swap contracts (Note 36)	**64,284**	211,361
Fair value (gain)/loss on derivative embedded in convertible bonds (Note 34)	**(12,458)**	178,122
Loss on dissolution of a subsidiary (Note 8)	**–**	5,538
Gain on disposal of interests in Golden Luodian and Shanghai Internet (Note 8)	**–**	(191,442)
Share of results of a jointly-controlly entity and associates	**31,021**	74,278
Fair value gain on investment properties (Note 8)	**(942,269)**	(579,540)
Other income (Note 7)	**(969)**	(10,818)
Gain from disposal of interest in CNTD (including changes in fair value of convertible notes) (Note 8)	**(293,982)**	–
Net finance (income)/costs (Note 10)	**(47,056)**	14,006
Operating profit before working capital changes	**402,107**	915,715

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

40. CONSOLIDATED CASH FLOW STATEMENT (continued)

	2007	2006
Decrease in restricted bank deposits (Note 29)	**1,997**	3,608
(Increase)/decrease in prepaid land lease payment	**(224,105)**	51,375
Decrease/(increase) in properties held or under development for sale	**1,096,415**	(587,848)
Increase in inventories	**(23,925)**	(201)
Increase in investment property	**(41,553)**	–
Decrease/(increase) in amount due from a jointly-controlled entity and associates	**272,707**	(2,118)
Earnest money paid to a third party for future cooperation	**(202,905)**	–
Decrease in prepayments and other current assets	**62,896**	54,343
Decrease in other receivables	**14,811**	4,250
Increase in accounts receivable	**(44,325)**	(11,577)
Increase in accounts payable	**243,256**	279,842
Decrease in other payables and accruals	**(314,717)**	(590,655)
(Decrease)/increase in amount due to a jointly-controlled entity and associates	**(1,087)**	94
(Decrease)/increase in advance received from pre-sale of properties under development	**(258,455)**	(1,087,111)
Cash generated from/(used in) operations	**983,117**	(970,283)

41. CONTINGENCIES

(a) In connection with the sale of the Group's properties, Oasis Garden, Hangtou Govern and Huarui Shiji provided guarantees to banks prior to the buyers providing title documents to their banks for mortgage purpose. As at 31 December 2006, such outstanding guarantees amounted to approximately HK$58 million and part of the Group's bank deposits amounting to approximately HK$3,655 thousand were restricted in connection with such guarantees. As at 31 December 2007, lender banks no longer have such requirements and the Group had no outstanding guarantees and restricted deposits as a result.

(b) As of 31 December 2006, the Group provided guarantee for Golden Luodian's bank borrowings proportionally according to its equity interest in Golden Luodian with amount of approximately HK$35 million (Note 46(a)). As of 31 December 2007, the Group did not provide any guarantee for Golden Luodian.

(c) On 13 February 2007, CNTD issued 5.0% US dollar settled convertible bonds ("CNTD CB") with a principal amount of RMB 1,239.6 million due on 13 February 2010. Pursuant to the terms of CNTD CB, under certain redemption events, the outstanding CNTD CB may, at the option of the majority bondholders, either become immediately payable in full by CNTD or be purchased by the Company, a subsidiary of the Company and two other investors of CNTD ("the Relevant Parties"), at an amount of the higher of the US$ equivalent of (i) 135% of the principal amount and (ii) the equity value of the bonds.

Each bondholder has the option, at any time between 15 September 2008 and 15 October 2008, to require CNTD to immediately redeem, or the Relevant Parties to immediately purchase, all or some only of any outstanding bonds then held by such bondholders on 15 September 2008, at an amount of US$ equivalent of 135%of the principal amount of each bonds plus accrued and unpaid interest.

As of 31 December 2007, the face value of the oustanding CNTD CB was RMB1,126 million (HK$1,202 million). Please see Note 23(b)(i) for financial information of CNTD.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

42. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (Note 18 to the financial statements) under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 15 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 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2007	2006
Within one year	**280,040**	45,808
In the second to fifth years, inclusive	**1,074,607**	163,306
After five years	**18,793**	156
	1,373,440	209,270

Included in the future lease receivables is an amount of HK$1,210 million attributable to a property under development for long-term investment ("Shenyang Richgate"). Shenyang Richgate was supposed to have commenced operation in January 2008 but the official commencement date of operation was postponed to April 2008. As a result, the effective dates of relevant lease contracts were postponed accordingly. Taking this into account, the lease receivables within one year of HK$280 million, as at 31 December 2007 as disclosed above, should be reduced by HK$48 million.

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from three to six years, and those for office equipment are for terms ranging between two and five years

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

Group

	2007	2006
Within one year	**5,967**	6,424
In the second to fifth years, inclusive	**8,743**	9,538
	14,710	15,962

As at the balance sheet date, the Company did not have any significant operating lease agreements.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

43. COMMITMENTS

In addition to the operating lease commitments detailed in Note 42(b) above, the Group had the following capital commitments at the balance sheet date:

Group

	2007	2006
Properties under development for long-term investment		
-Contracted but not provided for	11,175	62,627
-Authorised but not contracted for	136,934	448,505
	148,109	511,132
Properties held or under development for sale		
-Contracted but not provided for	514,309	293,743
-Authorised but not contracted for	192,462	954,488
	706,771	1,248,231
	854,880	1,759,363

As at the balance sheet date, the Company did not have any signfiicant commitments.

44. BUSINESS COMBINATIONS

(a) On 3 November 2006, the Group entered into a sales and purchase agreement (the "S&P Agreement") with three joint venture partners of Shuo Cheng to purchase their 55% equity interest in Shuo Cheng at a total consideration of approximately HK$33.32 million. The acquisition consideration, together the Group's further capital contribution of approximately HK$398 million for Shuo Cheng, were paid to Shuo Cheng by 31 December 2006. The renewed business licence of Shuo Cheng and the approval from the Company's special shareholders' meeting were both obtained in January 2007, and thereafter Shuo Cheng became a subsidiary of the Group.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

44. BUSINESS COMBINATIONS (continued)

(a) (continued)

The assets and liabilities on acquisition date of Shuo Cheng were as follow:

	Fair value (recognised on acquisition)	Carrying amount
Property, plant and equipment	693	693
Properties under development for sale	1,208,520	893,680
Prepaid land lease payment	1,443,227	1,403,331
Deferred tax assets (Note 35)	4,300	4,300
Other receivables	471,068	471,068
Prepayments and other current assets	65,500	65,500
Cash and bank balances	259,653	259,653
Other payables	(1,085,990)	(1,085,990)
Advances received from the pre-sale of properties under development	(991,433)	(991,433)
Interest-bearing bank and other borrowings	(984,815)	(984,815)
Deferred tax in relation to fair value adjustment (Note 35)	(126,189)	(9,126)
	264,534	26,861
Excess of share of fair value over cost (Note 8)	(112,170)	
Revaluation surplus relating to previously held interests	(106,955)	
	45,409	
Satisfied by:		
Cash	33,323	
Interests in an associate	12,086	
	45,409	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Cash consideration	(33,323)
Cash and cash equivalents acquired	259,653
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	226,330

Since its acquisition, Shuo Cheng contributed HK$1,239 million to the Group's turnover and HK$238 million to the consolidated profit for the year ended 31 December 2007.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

44. BUSINESS COMBINATIONS (continued)

(b) On 17 August 2007, SRE Investment Holding Limited and the Company entered into an acquisition agreement, pursuant to which the Company agreed to purchase the entire issued capital of Konmen Investment Limited ("Konmen"), which is an investment holding company which holds 70% interest in Liaoning Gao Xiao, for the consideration of HK$1,600 million. The consideration was satisfied by the Company issuing 526,315,789 shares at a price of HK$ 3.04 per share. The market share price on the acquisition date was HK$ 3.36 per share.

The assets and liabilities on acquisition date of Konmen were as follows:

	Fair value recognised on acquisition	Carrying amount
Property, plant and equipment (Note 17)	8,995	8,995
Property under development for sale	890,393	847,610
Prepaid land lease payment (Note 19)	2,135,702	1,231,727
Accounts receivable and other receivables	1,437,814	1,437,814
Prepayments and other current assets	2,109	2,109
Cash and bank balances	16,135	16,135
Other payables	(1,433,493)	(1,433,493)
Advances received from the presale of properties under development	(638,211)	(638,211)
Interest-bearing bank and other borrowings	(117,732)	(117,732)
Deferred tax in relation of fair value adjustment (Note 35)	(236,689)	–
Minority interests	(619,508)	(406,486)
	1,445,515	948,468
Transaction cost incurred	(4,113)	
Goodwill on acquisition (Note 21)	327,019	
	1,768,421	
Satisfied by:		
Shares allotted	1,768,421	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Cash consideration	(4,113)
Cash and cash equivalents acquired	16,135
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	12,022

Since its acquisition, Liao Ning Gao Xiao contributed HK$40 million to the Group's turnover and a loss of HK$4 million to the consolidated profit for the year ended 31 December 2007.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

44. BUSINESS COMBINATIONS (continued)

(c) On 14 November 2007, a subsidiary of the Company entered into an agreement to acquire 99% equity interest in Meng Shan, a property development company located in Shanghai City, the PRC.

The assets and liabilities on acquisition date of Meng Shan were as follows:

	Fair value recognised on acquisition	Carrying amount
Prepaid land lease payment (Note 19)	170,867	34,397
Other receivables	102,724	102,724
Other payables	(39,509)	(39,509)
Advances received from the pre-sale of properties under development	(57,830)	(57,830)
Tax payable	(5,385)	(5,385)
Deferred tax in relation to fair value adjustment (Note 35)	(34,118)	–
Minority interest	(1,367)	(344)
Net assets	135,382	34,053
Goodwill on acquisition (Note 21)	3,448	
	138,830	
Satisfied by:		
Cash	138,830	

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

Cash consideration	(138,830)
Cash and cash equivalents acquired	–
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(138,830)

Mengshan has no profit and loss for the year ended 31 December 2007.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

45. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2007, the Group's interest in Meilan Huafu decreased from 100% to 10% due to the unilateral injection of capital to Meilan Huafu from a third party investor.

	2007
Net assets before capital contribution:	
Prepaid land lease payment (Note 19)	469,886
Cash and bank balances	21,360
Deferred tax liability	–
Other payables	(469,886)
	21,360
Capital contribution from a third party investor	192,240
Net assets after capital contribution	213,600
Share of net assets of Meilan Huafu after capital contribution	21,360
Loss on disposal	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal/dissolution of a subsidiary is as follows:

	2007
Cash consideration	–
Cash and bank balances disposed of	(21,360)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary	(21,360)

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

46. RELATED PARTY TRANSACTIONS

Group

In addition to related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties.

SRE Investment Holding Limited owns 44.08% of the Company's shares as at 31 December 2007. The remaining 55.92% of the shares are widely held.

(a) Related party transactions carried out during the year:

i) Sales and purchases to and from a jointly-controlled entity and associates

	2007	2006
Purchase of land plot developed by CNTD/Golden Luodian	330,451	437,941
Construction of infrastructure for intelligent network for CNTD/Golden Luodian	5,857	11,544
Sales of goods to Broadband	3,592	6,750
Sales to Shou Cheng	–	3,912

During the year ended 31 December 2007, the Group purchased one parcel of land (2006: one) prepared by CNTD/Golden Luodian through public bidding procedures conducted by the relevant authorities. The consideration amounted to approximately HK$330 million (2006: HK$438 million) respectively and these parcels of land were held for the purpose of property development.

The parcel of land purchased in 2006 was held by Meilan Huafu which was disposed of and ceased to be a subsidiary of the Group during the year ended 31 December 2007 (Note 45) upon the Group disposing its interest in Meilan Huafu.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

46. RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions carried out during the year (continued):

ii) Loan guarantee

	2007	2006
Guarantee provided for loans borrowed by Golden Luodian	–	35,424
The Group's bank borrowings guaranteed by Mr. Shi Jian (Chairman)	–	289,790

During the year ended 31 December 2007, the guarantee provided for loan of Golden Luodian expired with the repayment of the loan. The bank borrowings as of 31 December 2006 guaranteed by Mr Shi Jian were fully repaid.

iii) Key management compensation

	2007	2006
Salaries and other short-term employee benefits	8,316	8,307

iv) Loans to related parties

	2007	2006
Loans to Golden Luodian (*)		
Beginning of the year	523	–
Loans advanced during year	–	69,673
Loans repayments	–	(69,673)
Interest income recognised	–	523
Interest received	(523)	–
End of the year	–	523
Loans and advances to Shuo Cheng (**)		
Beginning of the year	–	274,624
Loans advanced during year	–	218,971
Loans repayments	–	(278,690)
Interest income recognised	–	16,124
Exchange difference	–	9,731
End of the year	–	240,760
Total loans to related parties		
Beginning of the year	523	274,624
Loans advanced during year	–	288,644
Loans repayments	–	(348,363)
Interest income recognised	–	16,647
Interest received	(523)	–
Exchange difference	–	9,731
End of the year	–	241,283

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

46. RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions carried out during the year (continued):

iv) Loans to related parties (continued)

(*) During the year ended 31 December 2006, the Group provided unsecured loans of approximately HK$70 million to Golden Luodian at interest of 6% per annum. Loans to Golden Luodian were fully recovered before 31 December 2006 and the interest has been fully received as at 31 December 2007.

(**) On 4 July 2005, the Group entered into a shareholder's loan agreement with Shuo Cheng, pursuant to which the Group advanced shareholder's loan to Shuo Cheng of approximately HK$188 million. This shareholder's loan was for a period of three years and interest would be charged at 6% per annum. On 14 December 2005, the Group entered into another shareholder's loan agreement with Shuo Cheng, pursuant to which the Group advanced additional shareholder's loan to Shuo Cheng with a principal of approximately HK$67 million. This shareholder's loan was for a period of three years and is interest-free.

During the year ended 31 December 2006, the Group provided additional short-term financing to Shuo Cheng with maximum amount of approximately HK$219 million. These short-term financing were interest free and were fully recovered before year-end of 2006.

The loans and advances to Shuo Cheng is no longer presented as a balance due from associates as Shuo Cheng is a subsidiary from 2007 and all balances with subsidiaries have been eliminated in full upon consolidation.

v) Acquisition of Konmen and Liaoning Gao Xiao from SRE Investment Holding Limited, and the related obligations and undertakings given, were disclosed in Note 27(d) above.

(b) Material balances due from/(to) a jointly-controlled entity and associates

	2007	2006
Amounts due from		
– Shuo Cheng (Note 46(a))	**–**	240,760
– Golden Luodian	**4,012**	13,378
– Broadband	**7,036**	12,056
	11,048	266,194
Amounts due to		
– Broad band	**256**	–
– CNTD	**13**	1,464
– Others	**108**	–
	377	1,464

As at 31 December 2007, balances with those related parties are unsecured and mainly arose from the above related party transactions.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

47. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets	**2007**	2006
Financial assets at fair value through profit or loss	**–**	550,014
Loans and receivables		
-Amount due from a jointly-controlled entity and associates	**11,048**	266,194
-Other receivables	**1,106,464**	252,789
-Accounts receivable	**54,817**	20,186
-Cash and bank balances	**1,939,359**	1,025,904
	3,111,688	2,115,087

Financial liabilities	**2007**	2006
Financial liabilities at amortized cost		
-Interest-bearing bank and other borrowings	**3,793,781**	1,767,198
-Guaranteed notes	**1,540,928**	1,535,167
-Convertible bonds – host debts	**35,363**	89,994
-Accounts payable	**1,596,202**	860,701
-Amount due to a jointly-controlled entity and associates	**377**	1,464
-Other payables	**1,930,800**	916,369
Financial liabilities-at fair value through profit or loss		
-Derivative financial liabilities	**19,604**	326,128
	8,917,055	5,497,021

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets	2007	2006
Loans and receivables		
-Dividends receivable from subsidiaries	976,131	493,131
-Advance to subsidiaries	857,205	1,576,330
-Amount due from a jointly-controlled entity and associates	3,868	3,605
-Other receivables	252	55,963
-Cash and bank balances	269,482	61,306
	2,106,938	2,190,335

Financial liabilities	2007	2006
Financial liabilities at amortized cost		
-Interest-bearing bank and other borrowings	493,260	364,790
-Guaranteed notes	1,540,928	1,535,167
-Convertible bonds – host debts	35,363	89,994
-Amount due to a jointly-controlled entity and associates	–	1,464
-Other payables	4,294	3,401
Financial liabilities-at fair value through profit or loss		
-Derivative financial liabilities	19,604	326,128
	2,093,449	2,320,944

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivables and trade payables, which arise directly from its operations.

The Group does not hold or issue derivative financial instruments for trading purposes, the derivative financial instruments issued or held by the Group are either embedded derivates in financial instruments used for financing or swaps for management of currency risk. The Group's accounting policies in relation to derivatives are set out in Note 3.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank and borrowings. The Group does not use derivative financial instruments to manage its interest rate risk. The interest rates and terms of repayments of the borrowings are disclosed in Note 32.

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). Group's equity is not affected, other than the consequential effect on the retained earnings (a component of the Group's equity) by the changes in the profit before tax.

Changes in variables – RMB interest rate	**2007 Impact on profit before tax**	2006 Impact on profit before tax
+ 50 basis points	**(9,955)**	(6,723)
- 50 basis points	**9,955**	6,723
Changes in variables – HK$ interest rate		
+ 50 basis points	**(2,969)**	(375)
- 50 basis points	**2,969**	375

Price risk

Equity price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure relates to financial instruments (principally the embedded derivatives in the convertible bonds) whose values will fluctuate as a result of changes in the market prices of the Company's own share.

The following table demonstrates the sensitivity to possible changes in the market prices of the Company's own share, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of embedded derivatives in the convertible bonds). Group's equity is not affected, other than the consequential effect on the retained earnings (a component of the Group's equity) by the changes in the profit before tax as disclosed below.

Increase/(decrease) in market prices of the Company's own shares	**2007 Impact on profit before tax**	2006 Impact on profit before tax
+ 10%	**(3,516)**	(14,338)
- 10%	**3,299**	13,633

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Most of the Group's operating entities operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk with only limited exposure arising primarily with respect to cash at bank, guaranteed notes, convertible bonds etc. denominated in US dollar ("USD") or HK$.

The Renminbi is not a freely convertible currency, the conversion of the Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The following table demonstrates the sensitivity to a reasonably possible change in the HK$ 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). Group's equity is not affected, other than the consequential effect on the retained earnings (a component of the Group's equity) by the changes in the profit before tax as disclosed below.

Changes in exchange rate of USD against Renminbi	**2007 Impact on profit before tax**	2006 Impact on profit before tax
+ 5%	**(86,123)**	(88,605)
- 5%	**86,123**	88,605

Changes in exchange rate of HK$ against Renminbi	**2007 Impact on profit before tax**	2006 Impact on profit before tax
+ 5%	**(19,598)**	(7,912)
- 5%	**19,598**	7,912

Credit risk

Credit risk arises from cash and bank balances, accounts receivables, other receivables and amounts due from a jointly-controlled entity and associates, the balances of which represent the maximum credit risk exposure of the Group. The management considers that the credit risk is low and there is no concentration risk as the majority of the Group's financial assets is cash and bank balances. For the sale of developed properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks.

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the assets subject to credit risk of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancement.

Financial assets	**2007**	2006
Financial assets at fair value through profit or loss	–	550,014
Loans and receivables		
-Amount due from a jointly-controlled entity and associates	**11,048**	266,194
-Other receivables	**1,106,464**	252,789
-Accounts receivable	**54,817**	20,186
-Cash and bank balances	**1,939,359**	1,025,904
Total credit risk exposure	**3,111,688**	2,115,087

Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to recognise the Group's future state of liquidity as is evident from the results of the Group's strategic and planning process. A twelve-month forecast of fund requirements is updated monthly for the latest developments.

Other than properties developed for sale, the Group also develops and holds properties for long-term operation, such as hotel properties and investment properties. Such long-term assets constitute an increasing proportion of total assets in recent years, which brings liquidity risk to the Group. In order to mitigate the liquidity risk, the Group adjusted its financing strategy to get more long-term borrowings and increase share capital, through issuance of long-term guaranteed notes, convertible bonds, as well as new shares.

The Group has developed strategic relationship with major state-owned banks that will normally provide financing to the Group when relevant approval from government authorities for the commencement of a project is obtained. The Group also seek financing from overseas market through close cooperation with several world-wide bankers.

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

Group

	2007					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	–	612,027	769,686	2,880,164	–	4,261,877
Guaranteed notes	–	–	134,550	538,200	1,627,275	2,300,025
Convertible bonds	45,240	–	–	–	–	45,240
Accounts payable	–	196,656	1,399,546	–	–	1,596,202
Others	38,984	993,191	899,002	–	–	1,931,177
	84,224	1,801,874	3,202,784	3,418,364	1,627,275	10,134,521

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	2006					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	–	77,176	654,931	1,243,411	–	1,975,518
Guaranteed notes	–	–	134,550	538,200	1,761,825	2,434,575
Convertible bonds	–	–	125,840	–	–	125,840
Derivative financial liabilities-Currency Swap						
-Contractual amounts payable	–	–	46,664	414,838	672,153	1,133,655
-Contractual amounts receivable	–	–	67,966	423,854	659,447	1,151,267
Accounts payable	–	2,608	858,093	–	–	860,701
Others	381	10,569	906,883	–	–	917,833
	381	90,353	2,794,927	2,620,303	3,093,425	8,599,389

Company

	2007					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest-bearing bank and other borrowings	**–**	**44,204**	**114,275**	**393,153**	**–**	**551,632**
Guaranteed notes	**–**	**–**	**134,550**	**538,200**	**1,627,275**	**2,300,025**
Convertible bonds	**45,240**	**–**	**–**	**–**	**–**	**45,240**
Others	**–**	**–**	**4,294**	**–**	**–**	**4,294**
	45,240	**44,204**	**253,119**	**931,353**	**1,627,275**	**2,901,191**

	2006					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	–	5,019	224,590	148,971	–	378,580
Guaranteed notes	–	–	134,550	538,200	1,761,825	2,434,575
Convertible bonds	–	–	125,840	–	–	125,840
Derivative financial liabilities-Currency Swap						
-Contractual amounts payable	–	–	46,664	414,838	672,153	1,133,655
-Contractual amounts receivable	–	–	67,966	423,854	659,447	1,151,267
Others	–	–	4,865	–	–	4,865
	–	5,019	604,475	1,525,863	3,093,425	5,228,782

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. When an active market exists, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market or when current market prices are not available, fair value is determined using valuation techniques (Note 3.4).

The Group's financial assets mainly include cash and bank balances convertible notes and receivables.

The Group's financial liabilities mainly include interest-bearing bank and other borrowings, guaranteed notes, convertible bonds, derivative financial liabilities and payables.

Except as indicated below, the fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and appropriate valuation models.

	2007		2006	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Guaranteed notes	**1,540,928**	**1,365,000**	1,535,167	1,523,390
Convertible bonds-host debts	**35,363**	**36,598**	89,994	104,147

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. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

As the Group is engaged in the development of properties, it needs substantial amount of funds. The Group monitors capital using a gearing ratio, as defined by management for capital management purposes, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, accounts payable, other payables and accruals, less cash and bank balances. Capital comprises all components of equity (i.e. share capital and premium, other reserves, retained earning, minority interest). Such gearing ratios as at the balance sheet dates were as follows:

31 December 2007 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

	2007	2006
Interest-bearing bank and other borrowings (Note 32)	3,793,781	1,767,198
Accounts payable (Note38)	1,596,202	860,701
Other payables and accruals (Note 39)	2,072,911	933,070
Convertible bond – host debt (Note 34)	35,363	89,994
Guaranteed notes (Note 33)	1,540,928	1,535,167
Less: Cash and bank balances (Note 29)	(1,939,359)	(1,025,904)
Net debt	7,099,826	4,160,226
Equity attributable to equity holders of the parent	5,799,886	2,557,643
Minority interest	783,469	396,981
Capital	6,583,355	2,954,624
Capital and net debt	13,683,181	7,114,850
Gearing ratio	52%	58%

49. POST BALANCE SHEET EVENTS

Other than already disclosed elsewhere in the financial statements, there was no significant post balance sheet event.

50. CORRESPONDING FIGURES

Certain corresponding figures to the current year's financial statements of the Group and the Company have been restated (Note 2) and reclassified in accordance with disclosure requirements and also to conform with current year's presentation.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2008.