SHIMAO PROPERTY

Cultivating Lifestyle
Realising Urban Dreams
締造生活品位 成就城市夢想

2007
Annual Report

SHIMAO PROPERTY HOLDINGS LIMITED
世茂房地產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 813

Shanghai Hyatt on the Bund

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Hui Wing Mau *(Chairman)*
Hui Sai Tan, Jason *(Vice Chairman)*
Yao Li
Ip Wai Shing
Tang Ping Fai
Tung Chi Shing

Independent Non-executive Directors

Kan Lai Kuen, Alice
Lu Hong Bing
Gu Yunchang
Lam Ching Kam

AUDIT COMMITTEE

Kan Lai Kuen, Alice *(Committee Chairman)*
Lu Hong Bing
Gu Yunchang
Lam Ching Kam

REMUNERATION COMMITTEE

Hui Wing Mau *(Committee Chairman)*
Kan Lai Kuen, Alice
Lu Hong Bing
Gu Yunchang
Lam Ching Kam

NOMINATION COMMITTEE

Hui Wing Mau *(Committee Chairman)*
Kan Lai Kuen, Alice
Lu Hong Bing
Gu Yunchang
Lam Ching Kam

CHIEF FINANCIAL OFFICER

Hui Wai Man, Lawrence

COMPANY SECRETARY

Lam Yee Mei, Katherine

QUALIFIED ACCOUNTANT

Ng Yu Yuet

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISOR

Platinum Securities Company Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank Corporation
First Commercial Bank
Industrial and Commercial Bank of China (Asia) Limited
Sumitomo Mitsui Banking Corporation

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
2nd Floor
Strathvale House
North Church Street
P.O. Box 513
Grand Cayman KY1-1106
Cayman Islands

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 4307–12, 43/F
Office Tower
Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock code: 813

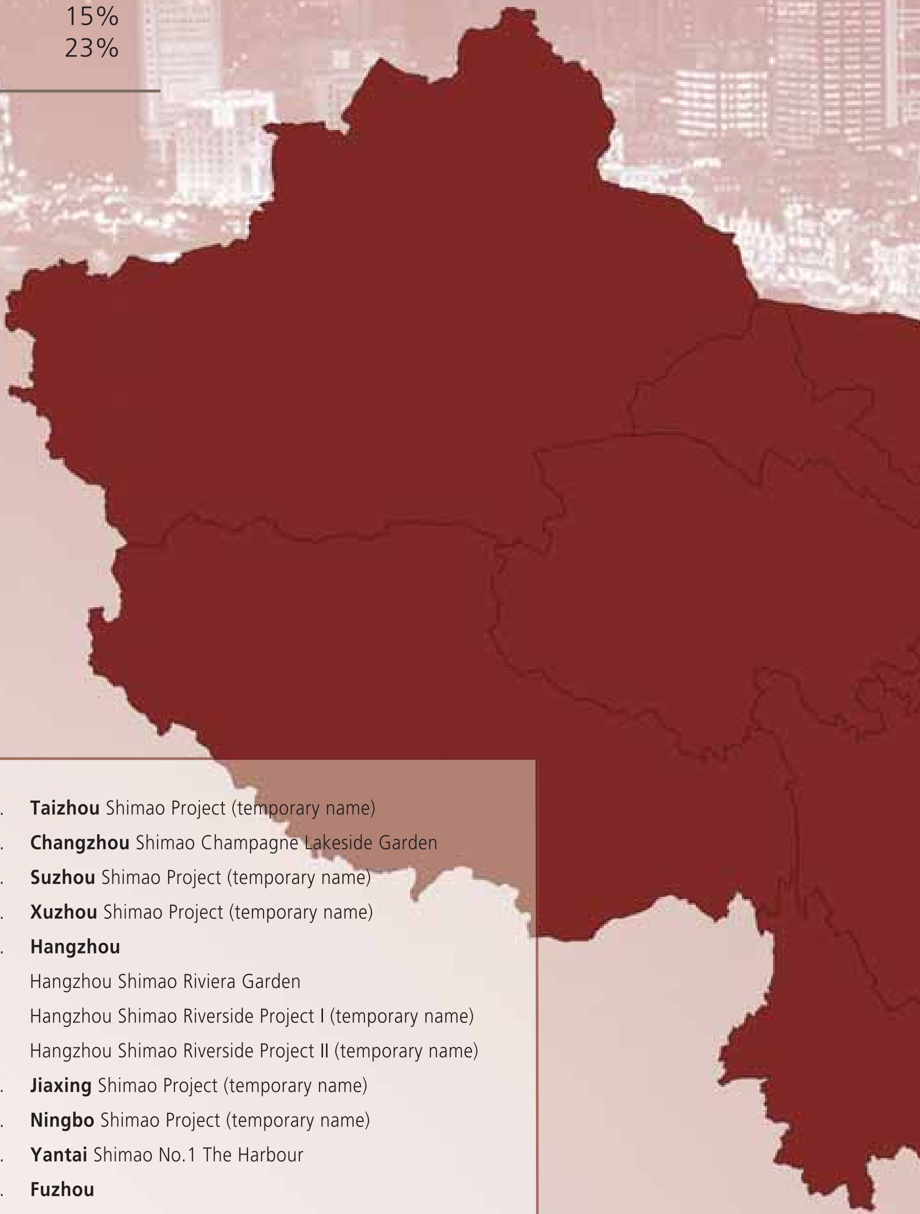
INVESTOR AND MEDIA RELATIONS

Corporate Communications Department
Email: ir@shimaoproperty.com
Tel: (852) 2511 9968
Fax: (852) 2511 0278

The Location of Our Projects

Land Bank Reserves (Total Planned GFA) 26.5 million sq.m.

Shanghai	5%
Yangtze River Delta (excluding Shanghai)	57%
Bohai Rim	15%
Other	23%



01. **Shanghai**
    Shanghai Shimao Riviera Garden
    Shanghai Shimao International Plaza
    Shanghai Shimao Sheshan Villas
    Hyatt on the Bund
    Shanghai Shimao Wonderland
    Shanghai Bihai Jinsha (temporary name)
02. **Beijing**
    Beijing Shimao Olive Garden
    Shimao Tower
    Beijing Sanlitun Project (temporary name)
03. **Kunshan**
    Kunshan Shimao Butterfly Bay
    Kunshan Shimao International City
04. **Changshu** Shimao The Center
05. **Harbin** Shimao Riviera New City
06. **Wuhan** Shimao Splendid River
07. **Shaoxing** Shimao Dear Town
08. **Wuhu** Shimao Riviera Garden
09. **Nanjing** Shimao Riviera New City
10. **Taizhou** Shimao Project (temporary name)
11. **Changzhou** Shimao Champagne Lakeside Garden
12. **Suzhou** Shimao Project (temporary name)
13. **Xuzhou** Shimao Project (temporary name)
14. **Hangzhou**
    Hangzhou Shimao Riviera Garden
    Hangzhou Shimao Riverside Project I (temporary name)
    Hangzhou Shimao Riverside Project II (temporary name)
15. **Jiaxing** Shimao Project (temporary name)
16. **Ningbo** Shimao Project (temporary name)
17. **Yantai** Shimao No.1 The Harbour
18. **Fuzhou**
    Fuzhou Shimao Bund Garden
    Fuzhou Shimao Chating Project (temporary name)
19. **Mudanjiang**
    Mudanjiang Shimao Beishan Project (temporary name)
    Mudanjiang Shimao Jiangnan Project (temporary name)
20. **Shenyang** Shimao Project (temporary name)
21. **Xianyang** Shimao Project (temporary name)
22. **Dalian** Shimao Lushunkou Project (temporary name)

Yangtze River Delta   Bohai Rim   Regional Centres

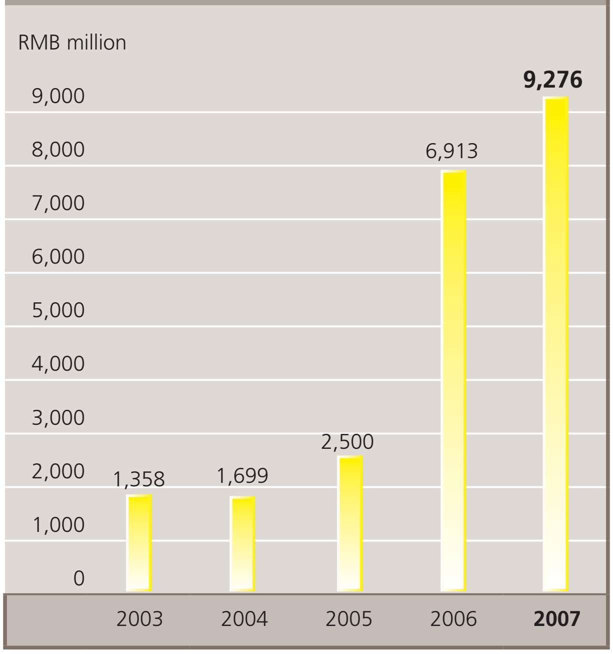

Harbin 05
Mudanjiang 19
Shenyang 20
Beijing 02
22 Dalian
Yantai 17
21 Xianyang
13 Xuzhou
Nanjing
Shanghai
Wuhan 06
08 Wuhu
Hangzhou
Fuzhou 18
Taiwan
Hong Kong
Hainan
10 Taizhou
09 Nanjing
11 Changzhou
04 Changshu
12 Suzhou
03 Kunshan
01 Shanghai
Jiaxing 15
14 Hangzhou
07 Shaoxing
Ningbo 16

Five Years Financial Summary

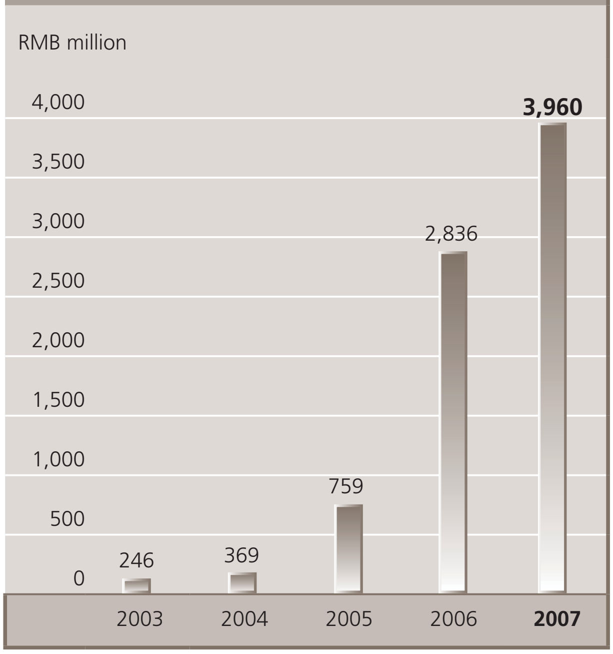
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Revenue	1,357,998	1,699,221	2,500,430	6,913,442	**9,275,925**
Cost of sales	(1,112,261)	(1,330,084)	(1,741,188)	(4,077,436)	**(5,315,775)**
Gross profit	245,737	369,137	759,242	2,836,006	**3,960,150**
Fair value gains on investment properties	—	83,551	902,639	1,000,831	**1,155,253**
Gain on disposal of a jointly controlled entity	240,673	—	—	—	**—**
Other gains	192,572	143,036	99,617	73,625	**1,614,054**
Selling and marketing costs	(100,005)	(124,672)	(106,388)	(207,576)	**(192,433)**
Administrative expenses	(67,353)	(110,371)	(189,270)	(460,008)	**(757,384)**
Other operating expenses	(75,226)	(3,281)	(7,343)	(143,853)	**(117,412)**
Operating profit	436,398	357,400	1,458,497	3,099,025	**5,662,228**
Finance (costs)/income — net	(19,535)	(16,180)	(1,866)	39,034	**(167,231)**
Share of results of:					
— Associated companies	(3,005)	(13,742)	17,741	201,027	**112,870**
— Jointly controlled entities	(16,140)	—	—	(13)	**175**
	(19,145)	(13,742)	17,741	201,014	**113,045**
Profit before income tax	397,718	327,478	1,474,372	3,339,073	**5,608,042**
Income tax expense	(37,020)	(113,990)	(488,064)	(1,060,323)	**(1,434,257)**
Profit for the year	360,698	213,488	986,308	2,278,750	**4,173,785**
Profit attributable to equity holders of the Company	266,265	184,450	907,993	2,278,750	**4,091,782**
Non-current assets	3,878,756	5,488,429	8,244,973	13,883,525	**21,728,469**
Current assets	5,219,161	6,842,821	7,320,010	13,812,602	**17,542,133**
Total assets	9,097,917	12,331,250	15,564,983	27,696,127	**39,270,602**
Non-current liabilities	1,601,053	1,452,179	2,881,386	7,687,482	**12,023,481**
Current liabilities	5,007,458	8,429,602	10,173,379	8,480,276	**8,434,913**
Total liabilities	6,608,511	9,881,781	13,054,765	16,167,758	**20,458,394**
Net assets	2,489,406	2,449,469	2,510,218	11,528,369	**18,812,208**
Equity attributable to equity holders of the Company	1,782,865	1,914,315	2,510,218	11,528,369	**18,448,184**
Minority interests	706,541	535,154	—	—	**364,024**
Total equity	2,489,406	2,449,469	2,510,218	11,528,369	**18,812,208**

Note: The figures for 2006 and 2007 are extracted from the annual reports of the Company. The figures for 2003, 2004 and 2005 are extracted from the prospectus of the Company dated 22 June 2006. To be consistent with current year presentation, certain comparative figures have been reclassified in the consolidated financial statements: Land appreciation tax expense was reclassified from cost of sales to income tax expense, while finance income was reclassified from other gains to finance (costs)/income-net.

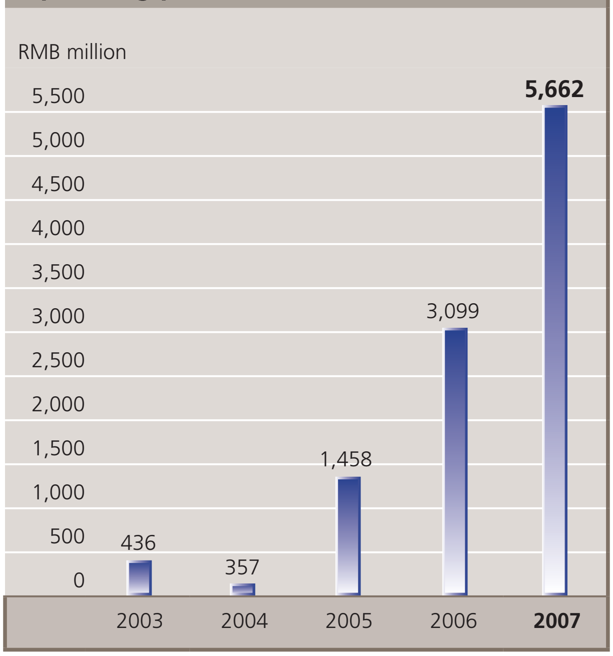
Revenue



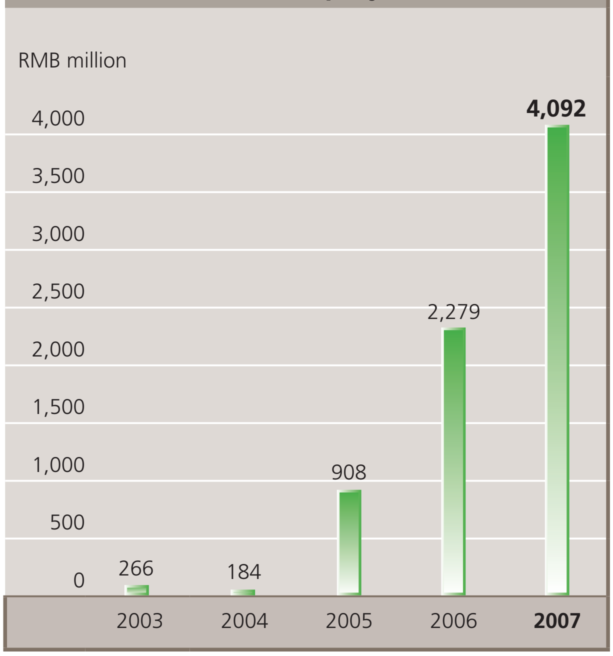
Gross profit



Operating profit



Profit attributable to equity holders



Chairman's Statement

Shanghai Shimao Sheshan Villas

Chairman's Statement

Shanghai Shimao Riviera Garden

Dear shareholders,

I am pleased to present the annual results of Shimao Property Holdings Limited ("Shimao Property" or the "Company" and together with its subsidiaries, the "Group") for the year ended 31 December 2007.

Shimao Property showed a remarkable performance in 2007, scoring record highs in various indicators. We performed extremely well in all of our business segments, including residential property, commercial property and hotel business, underpinning the success of our policy of business extension in the past year and reinforcing our leadership in China's property market. During the year, the central government stepped up with macro-control measures to prevent over heat of the economy and to ensure stable development of China's real estate market in the long run. With our broadened geographical coverage, diversification of products as well as flexible strategy, the Group managed to deliver sound results and healthy development.

During the year under review, the significant year-on-year growth in the Group's revenue was driven by sound progress in project development, sales performance beating expectations and return on investments in hotel and commercial properties. Revenue of approximately RMB9.9 billion (including attributable revenue of RMB634 million from associated companies) was booked for the year. Operating profit increased 83% to RMB5.7 billion. Profit attributable to shareholders of the Company grew 80% to RMB4.1 billion. Excluding after tax effect of net fair value gains on investment properties, depreciation and amortisation and goodwill/negative goodwill adjustment with a total amount of RMB1.2 billion (after tax effect of net fair value gains on investment properties of RMB866 million, depreciation and amortization of RMB128 million and goodwill/negative goodwill adjustment of RMB459 million), profit attributable to shareholders of the Company amounted to RMB2.9 billion, growing 61% as compared to last year. Annual contracted sales continued to grow, securing RMB9.4 billion for the sale of properties with a total GFA of approximately 900,301 sq.m., an increase of 101% as compared to 2006.

In reward for the longstanding support of the shareholders, the board of directors (the "Board") has recommended the payment of a final dividend of HK16 cents per share for the year ended 31 December 2007. Together with the interim dividend of HK15 cents per share paid, the total dividend for the year will be HK31 cents per share (2006: HK20 cents), representing a year-on-year growth of 55%.

Beijing Shimao Olive Garden

The Group has won recognition from professional institutions in China and abroad for its diligent efforts. During the year, the Group was named among the "Top 50 Enterprises of Asia 2007" by Business Weekly, the internationally renowned business magazine. It also ranked No. 1 in 2007 Top 10 foreign-invested real estate companies in China in terms of integrated strength by the Corporate Research Institute of Development Research Center. Investors' recognition and the Group's strength were further underpinned by its inclusion as one of the 200 constituent stocks of the Hang Seng Composite Index Series and a constituent stock of the Hang Seng Freefloat Composite Index Series on 12 March 2007.

Upbeat Sales Performance Supported by National Brand Development

The Group booked RMB9.3 billion from property sales (including attributable revenue of RMB634 million from associated companies) in 2007 with attributable saleable GFA of 836,804 sq.m., following the successful rollout of its national brand development strategy and sound progress in project development and completion.

Harbin Shimao Riviera New City

In terms of sales, the Group's total contracted sales was RMB9.4 billion with a total contracted saleable GFA of 900,301 sq.m., representing growth of 101% and 81% respectively as compared to 2006. The strong results were mainly derived from encouraging sales generated from 11 projects including Beijing Shimao Olive Garden, Nanjing Shimao Riviera New City, Wuhan Shimao Splendid River, Harbin Shimao Riviera New City, Kunshan Shimao Butterfly Bay and Changshu Shimao The Center. The sales from new projects in second-tier cities launched this year, such as Shaoxing Shimao Dear Town and Wuhu Shimao Riviera Garden were also outstanding.

Balanced Property Portfolio Providing Stable Source of Revenue

The Group delivered remarkable results in its residential property business, while solid performance was also reported for its hotel and commercial property business. With the opening of Shanghai Shimao International Plaza — Phase 2 in May, revenue from hotel and commercial properties soared to RMB645 million for the year, representing a jump of 2.6 times over 2006. The strong support from tenants and customers that Shanghai Shimao International Plaza enjoys as a landmark shopping centre on Nanjing Road, Shanghai has bolstered the Group's commercial property business, and secured diversified sources of revenue for the Group. Shimao Property was also widely recognized and supported by renowned international players, signing strategic collaboration agreements with them led to "Multi-Win" outcomes for both of us. Furthermore, commercial projects outside Shanghai were also being complete and Beijing Shimao Tower has commenced operation in the first quarter of 2008.

Kunshan Shimao Butterfly Bay

In connection with the hotel property business, Hyatt on the Bund Shanghai held its grand opening in November 2007 after starting trial operation in June. Together with Le Royal Méridien Shanghai and Shanghai Le Méridien Sheshan, Shimao Property has now invested in three 5-star hotels in Shanghai providing over 1,700 guest rooms, commanding the largest market share in top-rate international hotels in Shanghai. Hyatt Regency Nanjing, the Group's first hotel outside Shanghai is scheduled for commencement of operation during the first half of 2009. In pursuit of its development strategy, Shimao Property will continue to cooperate with renowned international hotel management groups on a nationwide basis to develop hotels bearing international brand. Through the development of a diversified portfolio, the Group would be able to attain stable, overall revenue growth in future by capitalising on bullish runs of different segments in the property market.

Acquire Quality Land in Prudent Manner to Enhance Presence in Yangtze Delta Region and Bohai Bay Region

Having one of the most diversified land bank reserves among the PRC real estate developers, Shimao Property is able to capitalise on development opportunities in different regions and minimize geographical concentration risk. During the year under review, the Group broadened the geographical distribution of its land bank reserve in prudent manner to substantiate its nationwide development plans, with special emphasis on the regions with economic growth and rapid development, such as the Yangtze Delta Region and the Bohai Bay Region.

Fuzhou Shimao Bund Garden

During the year, the Group acquired 10 parcels of land with a total GFA of 7.51 million sq.m., comprising urban premium sites located in Suzhou, Xianyang, Xuzhou, Hangzhou, Fuzhou, Beijing, Taizhou, Shanghai and Mudanjiang. Since the beginning of 2008, the Group has further acquired 4 sites with a total GFA of 3.19 million sq.m. At present, the Group owns a land bank reserve covering 22 cities with a planned GFA of 26.5 million sq.m., which should adequately meet requirements for property development in the next 5 to 6 years. The Group will continue to prudently roll out its land development projects and acquire premium land sites through public tendering or acquisition in the secondary market. We will reinforce "SHIMAO" nationwide development plan and improve our market position with our solid financial strength, proven experience in development and well-recognised brand name of "SHIMAO".

Broaden Funding Channels Through Tapping into A-share Market

In order to tap resources for the development of commercial properties, which is capital-intensive in nature, the Group entered into an agreement with Shanghai Shimao Co., Ltd. ("Shanghai Shimao") and Shanghai Shimao Enterprises Development Co., Ltd. in October 2007 for the injection of 9 project development companies (holding 10 commercial projects) under Shimao Property and Beijing Shimao Tower into Shanghai Shimao in consideration of 630 million new shares in Shanghai Shimao at RMB12.05 per share. The transaction will form an independent

Shaoxing Shimao Dear Town

A-share listed company under the Group specialised in commercial properties, as well as a separate channel for funding which would allow the Group to raise funds in the PRC equity and debt markets more effectively and at lower costs. Given substantial funding requirements for commercial projects, the transaction would enhance the financial flexibility of the Group and speed up development of its residential and hotel businesses in future. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 30 November 2007 and is currently in the process of approving by China Securities Regulatory Commission. If approved, the transaction will become an important milestone for the Group as additional funding channels would be available with access to the A-share market.

The Group's financing capabilities continued to grow during the year as it successfully completed the placing of new shares in capital market to raise approximately HK$3.9 billion for its business development. The Group's extensive financing resources were further underpinned by the US$328 million syndicated loan offered by various banks, signed for a term of 3 years with an option for renewal.

Enhancing Corporate Governance and Bearing Social Responsibility

Shimao Property is committed to the enhancement of corporate governance standards. By renovating our corporate governance structure and instituting new management systems and practices, our internal management system will be adjusted and optimised so that we could capitalise on new opportunities. Meanwhile, we will be committed to corporate culture building and seek to enhance team spirit and competitive strengths by creating a modernised management team oriented towards learning and innovations as well as a sound and effective performance incentive scheme. Moreover, the Group adhered to the notion that it is the duty of a corporate citizen to pay back to the society for all it owes to the society. Shimao Property donated HK$10 million to the China Charity Foundation to aid victims in the most severe snow storm in 17 southern provinces in China in 50 years occurring in early 2008 and to provide funds for redevelopment in the aftermath.

Market Outlook

As reported during the first meeting of the 11th National People's Congress, the central government estimated an approximately 8% GDP growth for 2008, while inflation will be controlled at around 4.8% by the implementation of a prudent fiscal policy and a relatively tight monetary policy, as continuity and stability in fiscal policies remains the primary concern for the government. While we expect a challenging market environment, we believe that the aim of the government in regulating the property sector is to prevent any significant fluctuations in property prices from adversely affecting the economy and the livelihood of the people, rather than inflection of the sector. We expect government regulation of the property market in a more stable and mature manner this year, as reasonable price movements in the property market should represent the most ideal result for the government.

Nevertheless, we anticipate a period of consolidation for the domestic property market given tightened money supply. Certain small and medium-sized property companies may have difficulties in carrying on business under such austere market conditions and be obliged to sell ongoing projects to larger companies with strong balance sheet and resources to ensure completion of these projects. As a company that has been following a prudent and conservative financial policy, Shimao Property is well-positioned to expand its portfolio of projects by capitalising on these opportunities. Meanwhile, we will continue to expand our land bank by acquiring premium land sites at competitive prices in a prudent and disciplined manner.

Hangzhou Shimao Riviera Garden


Shenyang Shimao Project

Future Plans and Goals

Injecting commercial property projects of Shimao Property into the A-share market was confirmed during the year under review. Currently in 2008, the Company is undertaking a restructuring exercise to restructure its hotel business, the completion of which will take the Group to a new stage of business development where the residential, commercial and hotel segments will be operated under different management team to fully implement a development pattern spearheaded by three principal businesses. The new structure will better realise the inherent value of each individual business segment and allow professional operation and management, thereby reinforcing and further enhancing our existing foundations and competitive edge for sustainable and stable business development.

The Group will continue to focus on key areas in the Yangtze Delta region and the Bohai Bay region while increase investments in prosperous and thriving second and third-tier cities such as Wuhan, Hangzhou, Shenyang, Dalian, Yantai, Suzhou, Ningbo, Jinan, Qingdao and Chengdu. The demand for quality real estate in these cities will continue to grow in tandem with higher living standards and spending powers. On the back of its growing brand value, we are confident that the Group will enjoy growing recognition.

Our target for this year is to generate a total of RMB18.5 billion from contracted sales and investment properties, representing a growth of over 85% versus 2007, and to complete and deliver properties with a total GFA of approximately 2.5 million sq.m. We will continue to optimise our management structure and advance our business development in a stable manner to achieve our target for the year, as we remain resolutely determined to realise the goal of becoming a leading property developer.

All in all, the Group is focused on positive and stable long-term development. To this end, we will pursue balanced growth in our development strategies to aim at growing brand recognition, customer loyalty, product and service innovation, and optimisation of management systems and processes with a view to ongoing improvement of product and service quality in tandem with the healthy development of the Group. In combination with financial and brand advantages, the Group will aspire to deliver in terms of customer, brand, business scale, return for shareholders, professional duty and social duty, joining hands with our shareholders to embrace a brighter future.

Appreciation

On behalf of the Board, I would like to thank our staff for their dedication and enthusiasm, which has been the driving force behind Shimao Property's growth. I would also like to thank our shareholders for supporting the Group and sharing its vision and strategy for future development. We at Shimao Property pledge to repay shareholders' trust by giving our best to generate lucrative return for shareholders, as we continue to embark on new ventures and pursue excellence in all areas.

Hui Wing Mau
Chairman
Hong Kong, 21 April 2008

Management

Discussion and Analysis

Shanghai Shimao International Plaza

Management Discussion and Analysis

Wuhu Shimao Riviera Garden

Overview

Market Review

In 2007, China's economy continued to grow rapidly. According to the National Bureau of Statistics of the PRC, the gross domestic product ("GDP") of China in 2007 reached RMB24,661.9 billion, an increase of 11.4% on year. In addition, total retail sales of consumer goods in urban area amounted to RMB6,041.1 billion, representing a year-on-year growth of 17.2%, of which the category of housing rose by 19.4%, average house price in 70 large and medium cities across the country increased by 7.6% over last year, 2.1% higher than the increase in 2006. China's investment in fixed assets maintained a robust growth during the year, in particular the investment in development of real estate. The overall capital investment in fixed assets in China for 2007 stood at RMB13,723.9 billion, jumped by 24.8% from the previous year. For the investment in the real estate sector, it scored a growth of 30.2% in 2007 to RMB2,528.0 billion. Meanwhile, China's inflation has been accelerating as the consumer price index was up 4.8%, and also 3.3 percentage points higher than in 2006, an alarm of growing risks to the China's economy. To avoid the probability of economic "hard landing" by ensuring the effectiveness of the macroeconomic control measures, the central government has taken a number of macroeconomic control measures on the real estate market in 2007, aiming at preventing the real estate market suffered from over expansion, and maintaining a healthy level of development.

With continuing efforts on strengthening the macroeconomic control measures by the central government, those high-quality property developers with strong financial strength and competitive cost structure would be benefited from the accelerating consolidation of the real estate market. During the year under review, the Group made use of the advantages of its brand name, scale of economy and financial strength to achieve satisfactory results by realizing opportunities and further extending its presence across the country.

Business Review

During the year under review, revenue of the Group is primarily generated from three business segments, they are property development, hotel operation and commercial property investment. Revenue of the Group during the year was RMB9.9 billion (including attributable revenue of RMB634 million contributed by associated companies), an increase of 22% compared with the previous year. Property sales remained the main income source of the Group, the revenue from such segment was RMB9.3 billion (including attributable revenue of RMB634 million contributed by associated companies), representing 93% of total revenue, an increase of 17% over 2006, 10 projects in total were recognized in 2007 compared to only 8 projects were recognized in 2006. Revenue from hotel operation and commercial property investment were RMB566 million and RMB79 million respectively in 2007, surged by 3 times and 1.5 times respectively over 2006.

Property Development

Revenue from property sales recognized during the year was RMB9.9 billion (including revenue of RMB1,268 million of associated companies). Total booked saleable area was 892,778 sq.m. with average selling price of RMB11,088 per sq.m. The strong performance of property sales reflects that the brand name of "SHIMAO" has been widely recognized by the public, and also domestic demand for property has been enormous.

Revenue from property sales recognized for the year ended 31 December 2007 is as follows:

Project Name	Revenue	Saleable GFA Booked	Average Sales Price	Group's Interest in Project
	(RMB' million)	(sq.m.)	(RMB per sq.m.)	(%)
Beijing Shimao Olive Garden	3,050	153,219	19,906	100
Wuhan Shimao Splendid River	1,401	149,450	9,374	70
Shaoxing Shimao Dear Town	1,081	132,310	8,170	100
Changshu Shimao The Center	761	97,338	7,818	100
Shanghai Shimao Sheshan Villas	731	20,963	34,871	100
Kunshan Shimao Butterfly Bay	637	88,372	7,208	100
Harbin Shimao Riviera New City — Phase 1	531	125,417	4,234	100
Shanghai Shimao Riviera Garden	439	13,761	31,902	100
Sub-total	8,631	780,830		
Nanjing Shimao Riviera New City — Phase 1*	1,140	105,806	10,774	50
Fuzhou Shimao Bund Garden*	128	6,142	20,840	50
Sub-total	1,268	111,948		
Total	**9,899**	**892,778**	**11,088**	

* Revenue of Fuzhou Shimao Bund Garden and Nanjing Shimao Riviera New City, associated companies, has not been included in the revenue of the Group for the year ended 31 December 2007.

Projects Completed in 2007

There were 10 projects completed or commenced business in Shanghai, Beijing, Wuhan, Shaoxing, Nanjing, Changshu and Kunshan in 2007 with GFA completion of 1 million sq.m.

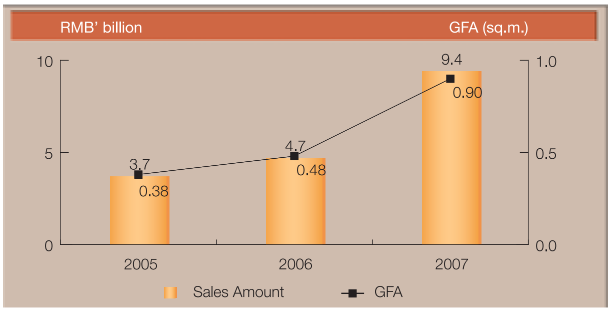
Projects completed for the year ended 31 December 2007 are as follows:

Project Name	Total GFA	Group's Interest in Project	Percentage Attributable
	(sq.m.)	(%)	(%)
Beijing Shimao Olive Garden	217,959	100	21.6
Wuhan Shimao Splendid River	182,133	70	18.0
Shaoxing Shimao Dear Town	154,618	100	15.3
Nanjing Shimao Riviera New City — Phase 1	136,609	50	13.5
Changshu Shimao The Center	117,649	100	11.7
Hyatt on the Bund (Hotel)	100,972	100	10.0
Shanghai Shimao International Plaza (Retail)	32,420	100	3.2
Shanghai Shimao Riviera Garden	27,476	100	2.7
Kunshan Shimao Butterfly Bay	24,683	100	2.5
Shanghai Shimao Sheshan Villas	14,882	100	1.5
Total	**1,009,401**		**100**

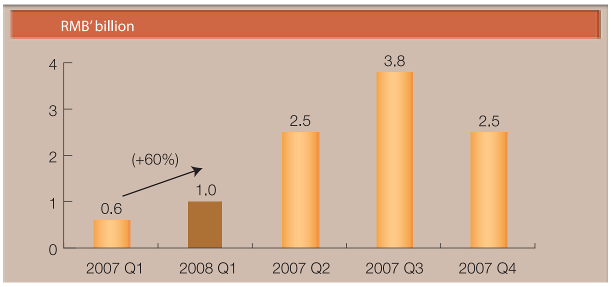
Performance of Contracted Sales

Total contracted sales of the Group was RMB9.4 billion with total saleable area of 900,301 sq.m., up by 101% and 81% respectively over the previous year.

Amount and GFA of contracted sales for the years of 31 December 2005, 2006 and 2007 are as follows:



Performance of contracted sales for 2007 and the 1st quarter of 2008 is as follows:



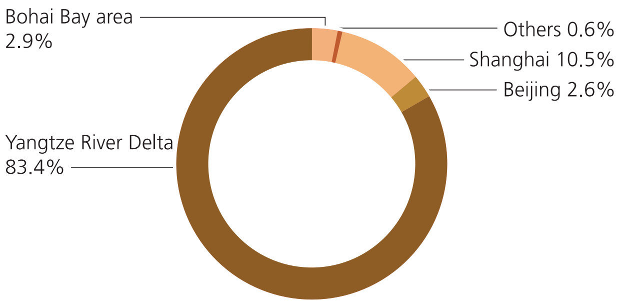
Saleable projects for 2008 are analysed as follows:

Project Name	Saleable GFA ('000 sq.m.)	Group's Interest in Project (%)
Project to be completed in 2008		
Shanghai Shimao Sheshan Villas	24	100
Changshu Shimao The Center	198	100
Kunshan Shimao Butterfly Bay	80	100
Kunshan Shimao International City (New Project)	122	100
Wuhan Shimao Splendid River	170	70
Shaoxing Shimao Dear Town	275	100
Wuhu Shimao Riviera Garden (New Project)	173	100
Jiaxing Shimao (New Project)	162	100
Changzhou Shimao Champagne Lakeside Garden (New Project)	160	100
Shenyang Shimao (New Project)	40	100
Suzhou Shimao (New Project)	140	100
Xuzhou Shimao (New Project)	180	100
Hangzhou Shimao Riviera Garden (New Project)	156	100
Shanghai Shimao Bihai Jinsha (New Project)	80	100
Harbin Shimao Riviera New City — Phase I	60	100
Sub-total	2,020	
Completed inventory GFA as at 31 December 2007	455	
Total	**2,475**	

Saleable Projects in 2008

The Group expects total project under sales will reach to approximately 19 projects in 2008, primarily in the Yangtze River Delta region and the Bohai Bay region. Together with saleable inventory of completed projects as at 31 December 2007, total saleable area in 2008 will be approximately 2.47 million sq.m. Looking forward, revenue from property sales in second and third-tier cities is estimated to account for over 80% of total property sales in 2008.

Geographical Breakdown of Saleable GFA



Hotel and Investment Properties

During the year under review, revenue from hotel and investment properties amounted to RMB645 million, or 7% (2006: 3%) of the Group's revenue. This represents an increase of 2.6 times over last year.

The Group continued to expand into its hotel and investment property business to mitigate its exposure to market volatility or policy changes. In order to achieve greater balance in revenue, stability in income streams and cash flow, the long term target of the Group is to increase the proportion of hotel, retail and office properties so that revenue from the Group's hotel and investment properties will account for about 15% of the Group's revenue.


Shanghai Le Méridien Sheshan

Hotel Operation

The Group has strived for expanding its hotel business during the year by developing international 5-star hotel portfolio targeting at business travelers and both domestic and foreign luxurious travelers. With increasing number of travelers, the Group will expand the proportion of hotel investment proactively, seeking to establish a comprehensive property portfolio so as to secure a long-term and steady source of income for the Group.


Nanjing Hyatt Regency

During the year, revenue from hotel business soared by 3 times to RMB566 million (2006: RMB146 million), principally generated from the room revenue of Le Royal Méridien Shanghai and Shanghai Le Méridien Sheshan. Since the Group's hotels may take time to establish their brand names and recognition with relatively long return period, revenue from the three hotels increased gradually and EBITDA of the three hotels was RMB168 million during the year.

Taking into account of Hyatt on the Bund, the Group has 3 completed hotels and planned to further develop 16 hotel projects on its existing land bank reserve, and the total number of the Group's hotels will reach 19.


Shanghai Shimao Wonderland

Development of the Group's hotel property is as follows:

	Hotel	Location	Group's Interest in Project (%)	Date of Commencement of Business	Number of Rooms
Completed in 2007					
1	Shanghai Le Méridien Sheshan	Shanghai	100	November 2005	327
2	Le Royal Méridien Shanghai	Shanghai	100	September 2006	770
3	Hyatt on the Bund	Shanghai	100	June 2007	631
					Sub-total : 1,728
Under construction or planning					
2009					
4	Hyatt Regency Nanjing	Nanjing	82.1*		
5	Mudanjiang Shimao	Mudanjiang	100		
6	Shanghai Le Méridien Sheshan — New Wing	Shanghai	100		
					Sub-total : 906
2010					
7	Shaoxing Shimao	Shaoxing	100		
8	Yantai Shimao	Yantai	100		
9	Fuzhou Shimao Chating	Fuzhou	100		
10	Wuhan Shimao	Wuhan	70		
11	Shenyang Shimao	Shenyang	100		
12	Shanghai Shimao Wonderland	Shanghai	100		
					Sub-total : 1,880
2011 and after					
13	Jiaxing Shimao	Jiaxing	100		
14	Wuhu Shimao	Wuhu	100		
15	Beijing Sanlitun	Beijing	100		
16	Xuzhou Shimao	Xuzhou	100		
17	Taizhou Shimao	Taizhou	100		
18	Xianyang Shimao	Xianyang	60		
19	Dalian Shimao Lushunkou	Dalian	100		
20	Ningbo Shimao	Ningbo	100		
					Sub-total : 3,250
					Total : 7,764

* on the assumption that the acquisitions of Shanghai Shimao and Shimao Enterprises have been completed

In order to repeatedly move the hotel business of the Group to another climax, the Group plans to restructure the hotel business by actively proposing to introduce new strategic investor, seeking to further make use of huge potential advantages of the hotel business with more capital resources. Such plan would allow the Group to reach new milestone with outstanding achievement.

Investment Properties

For 2007, revenue from commercial properties amounted to RMB79 million (2006: RMB31 million), representing an increase of 1.5 times over last year.

For the investment properties, the Group strategically tends to enter into long-term tenancy agreement with reputable tenants and attract targeted global retail brand as our tenants.

During the year, Shanghai Shimao International Plaza of the Group entered into strategic collaboration agreements with a number of world renowned brands, such as Nike Sports (China) Co. Ltd. ("NIKE") and YYSPORTS (勝道), and large amount of recurring rental income would flow into the Group through the collaborations. In addition, the Group has entered into an agreement with Huge Development (弘基企業) for a close strategic collaboration in food/beverage/entertainment business. Both parties would jointly develop "Theme Leisure Corridor" (主題休閒餐娛長廊), a modern commercial property project which is another milestone of the Group marking an invasion of commercial real estate market.

In the first quarter of 2008, Beijing Shimao Tower commenced its operations. As a number of commercial projects will be completed in the coming years, steady rental income is expected. The Group also plans to own a majority of retail and office properties in first-tier cities, such as Shanghai and Beijing, as long-term investment. Furthermore, the Group will own quality valuable commercial properties in second-tier cities such as Shaoxing, Changshu, Wuhu, Changzhou and Wuhan. The total gross leasable area under construction and planning of the Group is approximately 2 million sq.m.

Nanjing Shimao Riviera New City

Beijing Shimao Tower

Wuhan Shimao Splendid River

Summary of Investment Properties Portfolio of the Group is as follows:

Retail & Office (Investment Properties)	Location	Type	Interest* (%)	Date of Completion	Gross Leasable Area (sq.m.)
Completed					
1 Shanghai Shimao International Plaza — Phase 1	Shanghai	Retail	100.0	December 2004	38,819
2 Shanghai Shimao International Plaza — Phase 2	Shanghai	Retail	100.0	May 2007	32,420
3 Beijing Shimao Tower (formerly Beijing Huaping International Plaza)	Beijing	Retail	64.2	April 2008	16,000
4 Beijing Shimao Tower	Beijing	Office	64.2	April 2008	54,175
					Sub-total : 141,414
Under Planning					
2009					
5 Shaoxing Shimao Dear Town	Shaoxing	Retail	64.2		
6 Changshu Shimao The Center	Changshu	Retail	64.2		
7 Kunshan Shimao International City	Kunshan	Retail	64.2		
8 Suzhou Shimao	Suzhou	Retail	64.2		
					Sub-total : 285,000
2010					
9 Wuhu Shimao Riviera Garden	Wuhu	Retail	64.2		
10 Changzhou Shimao Champagne Lakeside Garden	Changzhou	Retail	64.2		
11 Suzhou Shimao	Suzhou	Shopping center	64.2		
12 Xuzhou Shimao	Xuzhou	Retail	64.2		
13 Shenyang Shimao	Shenyang	Retail	64.2		
14 Wuhan Shimao Splendid River	Wuhan	Retail	70.0		
					Sub-total : 598,610
2011 or after					
15 Shanghai Shimao Wonderland	Shanghai	Retail	64.2		
16 Jiaxing Shimao	Jiaxing	Retail	64.2		
17 Changzhou Shimao Champagne Lakeside Garden	Changzhou	Office	64.2		
18 Shenyang Shimao	Shenyang	Office	64.2		
19 Beijing Sanlitun	Beijing	Retail	64.2		
					Sub-total : 1,020,889
					Total : 2,045,913

* on the assumption that the acquisitions of Shanghai Shimao and Shimao Enterprises have been completed

Restructuring of the Group

On 22 October 2007, the Group entered into an agreement with Shanghai Shimao and Shanghai Shimao Enterprises Development Co., Ltd. ("Shimao Enterprises") for the proposal of injecting 10 commercial projects and Beijing Shimao Tower into Shanghai Shimao in consideration of 630 million new shares in Shanghai Shimao valued at RMB12.05 per share. In addition, the Group will inject an amount of RMB750 million to Shimao Enterprises for further subscription of 62,240,000 new shares in Shanghai Shimao by Shimao Enterprises. Upon completion of the restructuring, the Group will have controlling interest in Shimao Enterprises and approximately 64.2% of effective interest in Shimao. The agreement was approved by the independent shareholders of the Company at an extraordinary general meeting held on 30 November 2007 and the transaction is currently in the process of approving by China Securities and Regulatory Commission. If approved, the transaction will become an important milestone for the Group as additional financing would be available with access to the A-share market. The deal will create an independent A-share listed company under the Group specialised in commercial properties, as well as a stand-alone financing platform which would allow the Group to raise funds in the PRC equity and debt markets more effectively and at lower costs. Given substantial funding requirements for commercial projects, the transaction would enhance financial flexibility of the Group and speed up development of its residential and hotel businesses in future.

Land Bank Reserve and Land Acquisition

During the year under review, the Group considerately increased its land bank reserve in a number of provinces and cities in China by means of tendering, auction, listing for sale and acquisition in second market in a prudent manner, proving its strength of being a leading integrated real estate developer in China.

Currently, the Group has total 34 projects in various stages of development in 22 cities, such as Shanghai, Beijing, Harbin, Wuhan, Nanjing, Fuzhou, Kunshan, Changshu, Shaoxing, Wuhu, Yantai, Jiaxing, Changzhou, Shenyang, Suzhou, Xuzhou, Hangzhou, Xianyang, Taizhou, Mudanjiang, Dalian and Ningbo. Following the acceleration of market consolidation, we believe the Group will be given more opportunities to acquire additional quality projects and project companies.

Currently, total planned GFA of the Group's land bank reserve was 26.5 million sq.m. The strategy adopted by the Group has been to start planning and development immediately after acquisition of lands.

Changshu Shimao The Centre

Yantai Shimao No. 1 The Harbour

Since 1 January 2007, the Group acquired a number of lands with total planned GFA of 10.7 million sq.m. Details of the newly acquired lands are as follows:

Project Name	Date of Acquisition	Purposes	Land Cost (RMB' million)	Total Planned GFA (000' sq.m.)	Cost per sq.m. (RMB)	Group's Interest in Project (%)
2007						
Suzhou Shimao	January	Residential & retail	1,704	1,500	1,136	100
Xianyang Shimao	January	Office, retail & hotel	80	135	593	60
Xuzhou Shimao	February	Residential & retail	1,200	1,300	923	100
Hangzhou Shimao Riviera Garden	February	Residential	816	719	1,135	100
Fuzhou Shimao Chating	May	Residential, retail & hotel	1,150	400	2,875	100
Beijing Sanlitun	May	Retail & hotel	1,400	210	6,667	100
Taizhou Shimao	October	Residential & hotel	318	400	795	100
Shanghai Bihai Jinsha	October	Residential	310	350	886	90
Mudanjiang Shimao Jiangnan Project	December	Residential & retail	435	1,800	242	100
Mudanjiang Shimao Beishan Project	December	Residential, retail & hotel	220	700	314	100
		Total	**7,633**	**7,514**	**1,016**	
2008						
Hangzhou Shimao Rivierside I	January	Residential & retail	3,073	608	5,054	50
Hangzhou Shimao Rivierside II	January	Residential & retail	1,586	281	5,644	50
Dalian Shimao Lushunkou	January	Residential, office, retail & hotel	1,650	1,600	1,031	100
Ningbo Shimao	January	Residential, retail & hotel	1,310	700	1,871	100
		Total	**7,619**	**3,189**	**2,389**	

The development status of the Group's land reserve as at 21 April 2008 is analysed as follows:

	Project Name	Location	Completed & Held for Investment/ for Sale (sq.m.)	Under Development (sq.m.)	GFA Held for Future Development Premium Paid (sq.m.)	GFA Held for Future Development Premium Unpaid (sq.m.)	Total Planned GFA (Note) (sq.m.)	Project Total Planned GFA (sq.m.)	Group's Interest in Project (%)	Date of Acquisition
1	Shanghai Shimao Riviera Garden	Shanghai	1,142	166,053	43,000	39,800	249,995	921,956	100	2000/Jan
2	Shanghai Shimao International Plaza	Shanghai	170,935	—	—	—	170,935	170,935	100	2001/Jun
3	Shanghai Shimao Sheshan Villas	Shanghai	87,033	28,058	—	—	115,091	145,960	100	2003/May
4	Hyatt on the Bund	Shanghai	100,972	—	—	—	100,972	100,972	100	2002/May
5	Shanghai Shimao Wonderland	Shanghai	—	70,000	321,000	—	391,000	550,765	100	2005/Nov
6	Beijing Shimao Olive Garden	Beijing	21,888	—	—	—	21,888	299,853	100	2004/Aug
7	Kunshan Shimao Butterfly Bay	Kunshan	67,918	286,882	633,277	—	988,077	1,200,335	100	2004/Nov
8	Kunshan Shimao International City	Kunshan	—	305,200	455,111	568,873	1,329,184	1,329,184	100	2005/Oct
9	Changshu Shimao The Center	Changshu	27,024	286,571	1,409,416	—	1,723,011	1,975,000	100	2004/Dec
10	Harbin Shimao Riviera New City	Harbin	264,657	108,651	949,238	—	1,322,546	1,693,564	100	2004/Mar
11	Wuhan Shimao Splendid River	Wuhan	200	300,000	71,460	1,262,409	1,634,069	1,816,000	70	2005/Feb
12	Shaoxing Shimao Dear Town	Shaoxing	20,378	182,171	610,184	352,727	1,165,460	1,299,700	100	2006/Mar
13	Wuhu Shimao Riviera Garden	Wuhu	—	194,388	294,695	119,917	609,000	609,000	100	2006/Mar
14	Yantai Shimao No. 1 The Harbour	Yantai	—	165,000	115,000	—	280,000	280,000	100	2006/Aug
15	Jiaxing Shimao Project	Jiaxing	—	—	1,050,000	—	1,050,000	1,050,000	100	2006/Aug
16	Changzhou Shimao Champagne Lakeside Garden	Changzhou	—	297,920	854,490	347,590	1,500,000	1,500,000	100	2006/Oct
17	Shenyang Shimao Project	Shenyang	—	250,000	1,537,220	—	1,787,220	1,787,220	100	2006/Dec
18	Beijing Shimao Tower	Beijing	70,175	—	—	—	70,175	70,175	100	2006/Dec
19	Suzhou Shimao Project	Suzhou	—	150,000	1,059,859	290,141	1,500,000	1,500,000	100	2007/Jan
20	Xuzhou Shimao Project	Xuzhou	—	150,000	400,685	749,315	1,300,000	1,300,000	100	2007/Feb
21	Hangzhou Shimao Riviera Garden	Hangzhou	—	196,600	522,240	—	718,840	718,840	100	2007/Feb
22	Fuzhou Shimao Chating Project	Fuzhou	—	—	400,000	—	400,000	400,000	100	2007/May
23	Beijing Sanlitun Project	Beijing	—	—	212,000	—	212,000	212,000	100	2007/May
24	Xianyang Shimao Project	Xianyang	—	—	111,991	22,850	134,841	134,841	60	2007/Jan

Note: Total planned GFA is the sum of completed GFA, GFA under development and GFA for future development

	Project Name	Location	Completed & Held for Investment/ for Sale (sq.m.)	Under Development (sq.m.)	GFA Held for Future Development Premium Paid (sq.m.)	GFA Held for Future Development Premium Unpaid (sq.m.)	Total Planned GFA (Note) (sq.m.)	Project Total Planned GFA (sq.m.)	Group's Interest in Project (%)	Date of Acquisition
25	Taizhou Shimao Project	Taizhou	—	—	125,786	274,214	400,000	400,000	100	2007/Oct
26	Shanghai Bihai Jinsha	Shanghai	—	—	350,000	—	350,000	350,000	90	2007/Oct
27	Nanjing Shimao Riviera New City	Nanjing	41,800	181,928	174,383	832,835	1,230,946	1,442,978	50	2003/Jul
28	Fuzhou Shimao Bund Garden	Fuzhou	5,411	—	—	—	5,411	286,094	50	2002/Dec
29	Mudanjiang Shimao Jiangnan Project	Mudanjiang	—	—	1,018,924	781,076	1,800,000	1,800,000	100	2007/Dec
30	Mudanjiang Shimao Beishan Project	Mudanjiang	—	—	371,839	328,161	700,000	700,000	100	2007/Dec
31	Hangzhou Shimao Riverside I	Hangzhou	—	—	121,797	487,189	608,986	608,986	50	2008/Jan
32	Hangzhou Shimao Riverside II	Hangzhou	—	—	56,337	225,350	281,687	281,687	50	2008/Jan
33	Dalian Shimao Lushunkou	Dalian	—	—	360,849	1,239,151	1,600,000	1,600,000	100	2008/Jan
34	Ningbo Shimao Project	Ningbo	—	—	436,023	263,977	700,000	700,000	100	2008/Jan
Total			**879,533**	**3,319,422**	**14,066,804**	**8,185,575**	**26,451,334**	**29,236,045**		
Attributable Interest in GFA (sq.m.)			855,868	3,138,458	13,789,311	7,025,025	24,808,662			

Note: Total planned GFA is the sum of completed GFA, GFA under development and GFA for future development

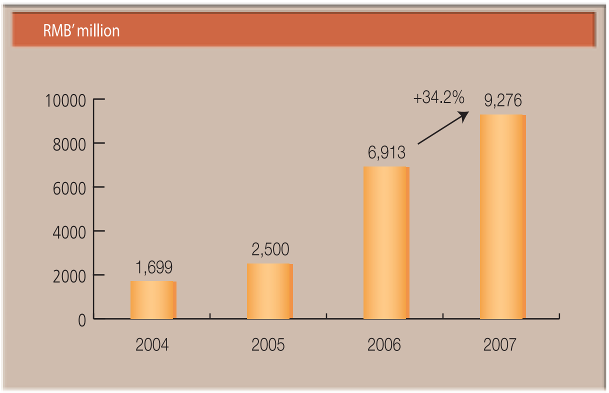
Market Outlook

The Board is confident of the prospects of the Group's future. China's economy continues to record huge growth with increasing per capita income and GDP, and steady economic growth would stimulate demand for commercial and residential properties in long and medium term, demand for real estate would maintain at a high level.

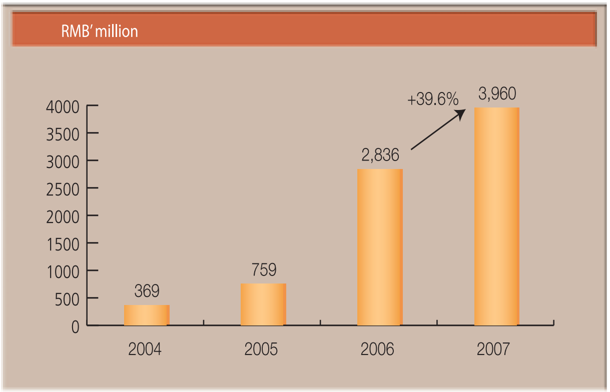
Due to the adoption of "tight" monetary policy by the central government, consumer sentiment in property market has been eroded by the recent macroeconomic control measures. However, we believe that the aim of relevant policy is to discourage speculation and safeguard user, and it will bring positive impacts on the property market in China for steady and sustainable growth in a long run.

Indeed, uncertainties of global economy over US subprime mortgage market and fluctuations in stock markets in 2008 may signal a slowdown in global economy. However, economic outlook of China for 2008 is expected to remain optimistic under the sustainable rapid growth in China's economy. In addition, Shanghai World Expo in 2010 and Beijing 2008 Olympic Games would provide catalyst for growth in hotel occupancy levels as well as flow of people in shopping centers in China as huge surge in travelers visiting China and more prosperous tourism industry are expected. Therefore, the Group foresees that the above factors will not only benefit its hotel and commercial business, but also drive them to achieve rapid growth.

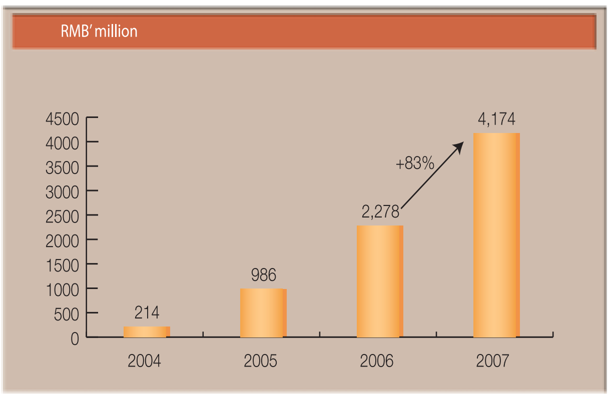
Revenue: 76% Compound Annual Growth Rate



Gross Profit: 120% Compound Annual Growth Rate



Net Profit: 170% Compound Annual Growth Rate



Prospects

Looking forward, the Group will strive for developing the regions with huge economic potentials, and increasing its investment in commercial properties and hotel business for expansion of the investment property business, balance the revenue and stabilize revenue sources and cash flow so as to reduce market volatility or by the impact of policy changes.

In addition, Shimao Property has collaboration with China Overseas Land & Investment Ltd. in the beginning of 2008. Such collaboration would create material synergy for both parties leveraging on their respective strong positions in the market. This successful experience encourages the Group to seek other partners with strength in different areas in order to build up a powerful brand of "SHIMAO" and jointly move to another stunning achievement.

Having built up its credibility through years of consistently delivering quality projects, the Group believes that the "SHIMAO" brand is the key assets for market expansion and strategy formulation. The Group will further enhance its brand value through upholding its outstanding management, effective human capital, experienced sales and customer service team, and quest for innovation. The Group believes the above strategies will facilitate the Group's corporate mission in "Cultivating Lifestyle, Realising Urban Dreams", developing quality real estate projects and maximising shareholders' return.

Financial Analysis

Key income statement figures are set out below:

	2007 RMB' million	2006 RMB' million
Revenue	**9,276**	6,913
Gross profit	**3,960**	2,836
Fair value gains on investment properties	**1,155**	1,001
Other gains	**1,614**	74
Operating profit	**5,662**	3,099
Profit for the year	**4,174**	2,279
Profit attributable to shareholders	**4,092**	2,279
Earnings per share — Basic (RMB)	**1.274**	0.855

Revenue

For the year ended 31 December 2007, the revenue of the Group was approximately RMB9.3 billion (2006: RMB6.9 billion), representing an increase of 34% over 2006. The Group generated 93% (2006: 97%) of the revenue from sales of properties and 7% (2006: 3%) of the revenue from hotel operation and leasing of commercial properties. The components of the revenue are analysed as follows:

	2007 RMB' million	2006 RMB' million
Sales of properties	**8,631**	6,736
Hotel operating income	**566**	146
Rental income from investment properties	**79**	31
Total	**9,276**	6,913

(i) Sales of Properties

Property sales for the years ended 31 December 2007 and 2006 can be further analysed by projects as follows:

	2007 Booked saleable area (sq.m.)	**2007** Revenue RMB' million	2006 Booked saleable area (sq.m.)	2006 Revenue RMB' million
Beijing Shimao Olive Garden	**153,219**	**3,050**	61,414	800
Wuhan Shimao Splendid River Garden	**149,450**	**1,401**	—	—
Shaoxing Shimao Dear Town	**132,310**	**1,081**	—	—
Harbin Shimao Riviera New City — Phase 1	**125,417**	**531**	59,772	251
Changshu Shimao The Center	**97,338**	**761**	114,811	584
Kunshan Shimao Butterfly Bay	**88,372**	**637**	124,019	627
Shanghai Shimao Sheshan Villas	**20,963**	**731**	15,760	500
Shanghai Shimao Riviera Garden	**13,761**	**439**	187,885	3,974
Sub-total (a)	**780,830**	**8,631**	563,661	6,736
Nanjing Shimao Riviera New City — Phase 1	**105,806**	**1,140**	107,202	1,094
Fuzhou Shimao Bund Garden	**6,142**	**128**	114,698	1,288
Sub-total (b)	**111,948**	**1,268**	221,900	2,382
Sub-total (c) attributable	**55,974**	**634**	110,950	1,191
Total (a)+(b)	**892,778**	**9,899**	785,561	9,118
Total (a)+(c)	**836,804**	**9,265**	674,611	7,927

Note: Revenue generated from associated companies, Nanjing Shimao Riviera New City and Fuzhou Shimao Bund Garden, attributable to the Group has not been included in the revenue of the Group for the years ended 31 December 2007 and 2006.

The strategy of diversification to second and third-tier cities reached the harvest time. The total revenue (including revenue of RMB1,268 million from associated companies) contributed from second and third-tier cities (other than Shanghai and Beijing) was increased from 42% to 57% compared to last year. Each of Wuhan, Shaoxing and Nanjing project has recorded revenue over RMB1,000 million in 2007.

(ii) Hotel Income

The Group's strategy of increasing portfolio of hotels also provided an encouraging result. Hotel operating income are analysed below:

	2007 RMB' million	2006 RMB' million
Shanghai Le Méridien Sheshan	**125**	89
Le Royal Méridien Shanghai	**365**	57
Hyatt on the Bund Shanghai	**76**	—
Total	**566**	146

Hotel operating income increased approximately 3 times to RMB566 million from RMB146 million of last year as (i) Le Méridien Sheshan entered the second full year operation and revenue increased 40%; (ii) Le Royal Méridien Shanghai contributed full year operating income in 2007 compared with only three months' operation in 2006; (iii) Hyatt on the Bund commenced business in June 2007.

(iii) Rental Income

Rental income from investment properties amounted to RMB79 million was generated from the shopping malls of Shanghai Shimao International Plaza. The rental income increased by 1.5 times in 2007 from 2006 due to opening of Phase 2 of shopping mall in May 2007.

Cost of Sales

The cost of sales mainly comprised land costs, construction costs, capitalised borrowing costs, sales taxes and the direct operating costs of hotel and commercial properties. The items can be analysed below:

	2007 RMB' million	2006 RMB' million
Sales taxes	**477**	349
Land costs, construction costs and capitalised borrowing costs	**4,527**	3,640
Direct operating costs for hotels	**310**	86
Direct operating costs for commercial properties	**2**	2
Total	**5,316**	4,077

Fair Value Gains on Investment Properties

For the year 2007, the Group recorded a total fair value gains on investment properties of RMB1,155 million (2006: RMB1,001 million) mainly contributed by Phase 2 of Shanghai Shimao International Plaza which was opened in May 2007. The net fair value gains after relevant deferred income tax of RMB289 million and goodwill impairment of RMB40 million recognised was RMB826 million.

Other Gains

Other gains of RMB1,614 million (2006: RMB74 million) included (i) RMB752 million gain on disposal of 29.99% equity interest of Wuhan project (2006: nil), (ii) negative goodwill of RMB523 million arising from the acquisition of 100% equity interest of Beijing Fortune Times Property Co., Ltd. (北京財富時代置業有限公司) and 90% equity interest of Shanghai Bicheng Real Estate Co., Ltd. (上海碧橙房地產有限公司) in September and October 2007 respectively and (iii) other items including mainly net foreign exchange gain, tax refund on reinvestment of dividend and others.

Selling and Marketing Costs and Administrative Expenses

Selling and marketing costs for the year 2007 was RMB192 million (2006: RMB208 million), representing a 8% decrease compared with 2006. Decrease was mainly due to reduction of promotion expenses in 2007. Administrative expenses increased 65% to RMB757 million (2006: RMB460 million) which was mainly due to an increase of staff costs as a result of increasing number of employees. In addition, the administrative expenses related to our hotel operation was increased from RMB155 million in 2006 to RMB263 million in 2007.

Operating Profit

Operating profit amounted to approximately RMB5.7 billion for the year ended 31 December 2007, an increase of 83% over 2006, mainly due to increase of revenue and other gains as explained in respective aforementioned paragraphs.

Finance Costs — Net

Net finance costs increased to RMB167 million (2006: net finance income of RMB39 million) mainly due to more interest expenses incurred for increased borrowing in 2007.

Share of Results of Associated Companies

Share of results of associated companies amounted to RMB113 million (2006: RMB201 million). The decrease was mainly due to one of the two projects, Fuzhou Shimao Bund Garden, was completed and mostly sold out in 2006.

Taxation

The Group's provisions amounted to approximately RMB1.4 billion in which land appreciation tax (LAT) was RMB754 million (2006: RMB1.1 billion, in which LAT was RMB355 million) for the year. LAT had been booked as cost of sales in previous years. After reassessment of the nature of the taxes, the directors consider that it is more appropriate to treat the LAT as income tax, and therefore reclassified the LAT charge from cost of sales to income tax expense.

Profit Attributable to Shareholders

Profit attributable to shareholders for the year grew by 80% from approximately RMB2.3 billion in 2006 to approximately RMB4.1 billion in 2007. Profit attributable to shareholders excluding the net fair value gains on investment properties of RMB866 million (2006: RMB671 million) (after the income tax effect), depreciation and amortisation of RMB128 million (2006: RMB55 million) (after the income tax effect), net negative goodwill of RMB459 million (2006: goodwill impairment of RMB132 million) (no income tax effect) was approximately RMB2.9 billion, as compared with approximately RMB1.8 billion in last year.

Liquidity and Financial Resources

As of 31 December 2007, total assets of the Group were approximately RMB39.3 billion, of which current assets reached approximately RMB17.5 billion. Total liabilities were approximately RMB20.5 billion, whereas non-current liabilities were approximately RMB12.0 billion. Equity attributable to the shareholders of the Company was increased 60% to approximately RMB18.5 billion.

As at 31 December 2007, the Group had aggregate cash and bank balances (including restricted cash balances) of approximately RMB5.0 billion (2006: RMB6.0 billion), total bank loans amounted to approximately RMB7.4 billion (2006: RMB3.6 billion) and Senior Notes of approximately RMB4.3 billion (2006: RMB4.6 billion). Total net debts were approximately RMB6.7 billion (2006: RMB2.2 billion). Net gearing ratio maintained at a healthy level of 35%.

The maturity of the borrowings of the Group as at 31 December 2007 is set out as follows:

	RMB' million
Bank borrowings	
Within 1 year	1,252
Between 1 and 2 years	707
Between 2 and 5 years	4,635
Over 5 years	758
Senior notes	
Between 2 and 5 years	1,785
Over 5 years	2,499

The borrowings were denominated in different currencies set out below:

	Original currency million	**RMB Equivalent** million
US$	966	6,924
HK$	250	234
RMB	4,478	4,478

Financing Activities

During the year, we completed a private placement in the capital market and raised a net proceed of approximately HK$3.9 billion in May 2007. We also obtained a syndicated bank loan in August 2007 with a facility amounting to US$328 million at an interest rate of LIBOR plus 111 basis points.

Foreign Exchange Risks

Other than financing activities such as foreign currency borrowings and placement of shares which were denominated in foreign currencies, the Group conducts its business almost exclusively in RMB. The Group would be affected mainly by the outstanding foreign currency borrowings which include US$328 million syndicated loans, a US$38 million bank loan, US$600 million Senior Notes and a HK$250 million bank loan as at 31 December 2007.

Pledge of Assets

As of 31 December 2007, the Group had pledged property, plant and equipment, land use rights, properties under development, completed properties for sale, investment properties and cash and cash equivalents with a total carrying amount of approximately RMB13.5 billion to secure bank facilities granted to the Group. The corresponding bank loans amounted to approximately RMB4.3 billion.

Financial Guarantees

As of 31 December 2007, the Group had provided guarantees for approximately RMB2.1 billion in respect of the mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties.

Capital and Property Development Expenditure Commitments

As of 31 December 2007, the Group has contracted capital and property development expenditure commitments but not provided for amounted to approximately RMB11.5 billion.

Employees and Remuneration Policy

As of 31 December 2007, the Group employed 3,896 employees. Total remuneration including directors' emoluments for the year amounted to RMB342 million. The Group has adopted a performance based rewarding system to motivate its staff. In addition to a basic salary, year-end bonuses will be offered to those staff with outstanding performance. Share option schemes were adopted to attract and retain talents to contribute to the Group. In relation to staff training, the Group also provides different types of programmes for its staff to improve their skills and develop their respective expertise.

Report of the Directors

Shanghai Shimao Riviera Garden

Report of the Directors

The directors (the "Directors") of Shimao Property Holdings Limited (the "Company") have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property development, investment and hotel operation. The principal activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out on pages 59 to 140 of this annual report.

The Directors recommended the payment of a final dividend of HK16 cents (2006: HK20 cents) per share for the year ended 31 December 2007. An interim dividend of HK15 cents per share was paid in 2007 (2006: Nil).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on 23 June 2008, will be payable on 23 July 2008 to the shareholders whose names appear on the register of members of the Company on 23 June 2008. The register of members of the Company will be closed from Thursday, 19 June 2008 to Monday, 23 June 2008 (both days inclusive). In order to qualify for the above mentioned proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 18 June 2008.

RESERVES

Movement in the reserves of the Company and the Group during the year are set out in note 21 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total turnover and 30% of the Group's total purchases respectively during the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the major suppliers noted above.

BANK AND OTHER BORROWINGS

Particulars of bank and other borrowings of the Company and the Group as at 31 December 2007 are set out in note 22 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB44,427,000 (2006: RMB8,120,000).

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 20 to the consolidated financial statements.

Details of movements of the share options of the Company during the year are set out on pages 102 and 103 of this annual report.

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 6 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights over shares of the Company under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Mr. Hui Wing Mau *(Chairman)*
Mr. Hui Sai Tan, Jason *(Vice Chairman)*
Ms. Yao Li
Mr. Ip Wai Shing
Mr. Tang Ping Fai
Mr. Tung Chi Shing (appointed on 1 January 2008)

Independent Non-executive Directors

Ms. Kan Lai Kuen, Alice
Mr. Lu Hong Bing
Mr. Gu Yunchang
Mr. Lam Ching Kam

In accordance with article 86(3) of the Company's articles of association, Mr. Tung Chi Shing, who was appointed Director of the Company after the last annual general meeting of the Company, will hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election at the meeting.

In accordance with article 87 of the Company's articles of association, Ms. Yao Li, Mr. Ip Wai Shing and Mr. Tang Ping Fai will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

None of the Directors, including Directors being proposed for re-election at the forthcoming annual general meeting, has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all the Independent Non-executive Directors are independent.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this report, no contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INFORMATION ON SHARE OPTIONS

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") on 9 June 2006.

(1) Pre-IPO Share Option Scheme

(a) Movement of share options ("Pre-IPO Option") granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2007 were as follows:

Name	Date of Grant	Exercise price per share	As at 1 January 2007	Number of share options Granted	Exercised	Lapsed	As at 31 December 2007
Directors							
Mr. Hui Sai Tan, Jason	9 June 2006	HK$5.625	2,640,000	—	792,000	—	1,848,000
Ms. Yao Li	9 June 2006	HK$5.625	2,640,000	—	792,000	—	1,848,000
Mr. Ip Wai Shing	9 June 2006	HK$5.625	2,560,000	—	768,000	—	1,792,000
Mr. Tang Ping Fai	9 June 2006	HK$5.625	2,640,000	—	392,000	—	2,248,000
			10,480,000	—	2,744,000	—	7,736,000
Senior Management and Employees of the Group	9 June 2006	HK$5.625	53,440,000	—	11,699,750	5,709,200	36,031,050
			63,920,000	—	14,443,750	5,709,200	43,767,050

(b) The purpose of the Pre-IPO Share Option Scheme is to give the participants an opportunity to have a personal stake in the Company and help motivate the participants to optimize their performance and efficiency, and also to retain the participants whose contributions are important to the long-term growth and profitability of the Group.

(c) Pursuant to the shareholders' resolution passed on 9 June 2006 for approval of the Pre-IPO Share Option Scheme, options for a total of 63,920,000 ordinary shares of the Company have been conditionally granted to directors and selected employees.

(d) Each option has a 6-year exercise period with 30% vested on 31 March 2007, another 30% vesting on 31 March 2008 and the remaining 40% vesting on 31 March 2009.

(e) The consideration paid by each grantee for each grant of options is HK$1.00.

(f) Performance targets have been imposed as conditions for the grant under the Pre-IPO Share Option Scheme.

(g) Upon listing of the Company on 5 July 2006, the Pre-IPO Share Option Scheme was terminated but the options granted but not yet exercised shall continue to be valid and exercisable in accordance with the terms of the Pre-IPO Share Option Scheme.

(h) Save as disclosed above, no options were granted, cancelled or lapsed under the Pre-IPO Share Option Scheme as at 31 December 2007.

(i) The fair value of the Pre-IPO Options granted is measured based on a binomial lattice model, details of which are set out in note 20(b) to the consolidated financial statements.

Other details of the Pre-IPO Share Option Scheme are set out in note 20(b) to the consolidated financial statements.

(2) Share Option Scheme

(a) The purpose of the Share Option Scheme is to provide the participants the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the shares of the Company for the benefit of the Company and shareholders of the Company as a whole. The Share Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the participants.

(b) The Directors may, at their discretion, invite any directors, employees and officers of any member of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of the Group to participate in the Share Option Scheme.

(c) The total number of shares which may be issued upon exercise of all options (the "Share Options") granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company must not exceed 30% of the Company's shares in issue from time to time.

(d) The total number of shares issued and to be issued upon exercise of the Share Options granted to each participant under the Share Option Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue and any further grant of Share Options which would result in the number of shares of the Company issued as aforesaid exceeding the said 1% limit must be approved by the shareholders of the Company.

(e) The vesting periods, exercise periods and vesting conditions may be specified by the Company at the time of the grant, and the Share Options expire no later than 10 years from the relevant date of grant.

(f) The exercise price of the Share Options shall be no less than the higher of (i) the closing price of the shares of the Company on the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.

(g) The amount payable by a grantee on acceptance of a grant of Share Options is HK$1.00.

(h) The Share Option Scheme will expire on 8 June 2016.

(i) No options were granted, cancelled or lapsed under the Share Option Scheme as at 31 December 2007.

DISCLOSURE OF INTERESTS IN SECURITIES

Directors' and chief executive's interests and short positions in the share capital of the Company and the associated corporations

At 31 December 2007, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

(1) Long positions in the shares of the Company

Name of Director	Capacity	Nature of interests	Number of ordinary shares held	Approximate percentage of issued share capital
Mr. Hui Wing Mau	—	(Note)	1,925,444,500	58.39%

Note: These 1,925,444,500 shares represents the interests in the Company held by Gemfair Investments Limited, a company which is directly wholly-owned by Mr. Hui Wing Mau.

(2) Long positions in the underlying shares of the Company

Share options were granted to Mr. Hui Sai Tan, Jason, Ms. Yao Li, Mr. Ip Wai Shing and Mr. Tang Ping Fai pursuant to the pre-IPO share option scheme. Details in relation to the share options were stated in the section under the heading "Information on Share Options".

Save as disclosed above, no other interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) were recorded in the Register.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, any of its subsidiaries, or its holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

At 31 December 2007, the interests and short positions of substantial shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long/short positions in the shares of the Company

Name	Nature of Interests	Number of ordinary shares held	Approximate percentage of issued share capital
Long positions			
Gemfair Investments Limited ("Gemfair")	(Note 1)	1,925,444,500	58.39%
Overseas Investment Group International Limited ("Overseas Investment")	(Note 2)	1,925,444,500	58.39%
JPMorgan Chase & Co.	(Note 3)	261,712,605	7.94%
Short positions			
JPMorgan Chase & Co.	(Note 4)	2,641,000	0.08%

Notes:

(1) The interests disclosed represents the interests in the Company which is held by Gemfair, a company which is directly wholly-owned by Mr. Hui Wing Mau.

(2) The interests disclosed represents the right of Overseas Investment to vote on behalf of Gemfair as a shareholder at general meetings of the Company, pursuant to a deed dated 12 June 2006 between Gemfair and Overseas Investment, as long as Mr. Hui Wing Mau or his associates (directly or indirectly) hold not less than a 30% interest in the Company. Overseas Investment is the trustee of W.M. Hui Unit Trust, all the units of which are held by W.M. Hui Family Trust of which Mr. Hui Wing Mau and his immediate family are discretionary objects.

(3) It included 72,533,605 shares in the lending pool.

(4) It included interests in 141,000 underlying shares held through certain unlisted physically settled equity derivatives.

Save as disclosed above, no other interest or short positions in the shares and underlying shares of the Company were recorded in the Register.

ENFORCEMENT OF THE NON-COMPETITION UNDERTAKING

A non-competition undertaking (the "Undertaking") dated 19 February 2005 was entered into among the Company, Shanghai Shimao Co., Ltd. ("Shanghai Shimao"), Shanghai Shimao Enterprises Development Co., Ltd. ("Shimao Enterprises") , Overseas Investment Group International Limited ("Overseas Investment"), Mr. Hui Wing Mau ("Mr. Hui"), Mr. Xu Shiyong and Shimao International Holdings Limited ("Shimao International"), whereby the parties thereto agree to delineate their respective property business on the terms and conditions set out therein. On 22 October 2007, a supplementary agreement to the Undertaking was entered into among the above parties in light of the proposed acquisition of Shanghai Shimao and Shimao Enterprises by the Company as described in the circular of the Company dated 15 November 2007 ("Proposed Transaction"). In addition, pursuant to the privatisation of Shimao International on 27 July 2007, Shimao International became part of Mr. Hui's private group. The undertakings given by the Company, Mr. Hui and Overseas Investment to Shimao International under the Undertaking are no longer necessary and a deed of release ("Release") has been given by Shimao International accordingly and relevant provisions have also been included in the supplementary agreement. Except for the provisions relating to the Release which became effective upon signing on 22 October 2007, other provisions in the supplementary agreement will only become effective upon completion of the Proposed Transaction which is currently subject to government's approval. The Undertaking as amended by those effective changes made in the supplementary agreement is referred to as the "Revised Undertaking" in the following paragraphs of this section.

In respect of the property business undertaking by all other parties to the Revised Undertaking, Mr. Hui has provided a written confirmation to the Company based on the information available to him, that all parties have conducted their property business in compliance with the terms of the Revised Undertaking during the year 2007 (the "Mr. Hui's Confirmation").

Certain information relating to the property projects undertaken by each of the parties to the Revised Undertaking during the year ended 31 December 2007, which is relevant for determining whether the property projects fall within the permitted business scope of each party pursuant to the Revised Undertaking, is summarised (the "Information"). Such information primarily comprises the location, project size in terms of total gross floor areas, and development purposes of each property project, which if it relates to property projects undertaken prior to the Company's listing, those details are stated in the Company's prospectus dated 22 June 2006. The Company has prepared the Information relating to the property projects undertaken by the Group and has secured the Information relating to property projects undertaken by all the other parties to the Revised Undertaking. All the Information and Mr. Hui's Confirmation have been passed to the independent non-executive directors of the Company for their review and strictly based on the Information provided by the Company, they have noted no incidence of non-compliance with the Revised Undertaking by the Group or by any of the other relevant parties.

The Company has also engaged its auditor to perform certain agreed-upon procedures strictly based on the Information provided by the Company. The agreed-upon procedures primarily comprise the checking of the Information to the Revised Undertaking to identify any incidence of non-compliance and no exception has been reported by our auditor. The work performed by our auditor in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by our auditor.

As regards to the accuracy and completeness of the Information relating to parties to the Revised Undertaking other than the Company, Mr. Hui and his nephew Mr. Xu Shiyong, who provided such information to the Company, are solely responsible for each of himself and the relevant parties under each of their supervision.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year ended 31 December 2007, the following Directors were considered to have interests in the following businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.

Mr. Hui Wing Mau, the Chairman and an Executive Director, currently owns property development interests in the PRC through a number of private companies (collectively the "Private Group").

The Directors, including those interested in the businesses of the Private Group, will, as and when required under the Company's Articles of Association, abstain from voting on any board resolution in respect of any contract, arrangement or proposal in which he/she or any of his/her associates has a material interest.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 41 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CONNECTED TRANSACTION

On 22 October 2007, the Company entered into a share subscription and asset transfer agreement ("Agreement") with Shanghai Shimao, Peak Gain International Limited, Beijing Shimao Investment and Development Co., Ltd. and Shimao Enterprises to effect a proposed transaction ("Proposed Transaction") which involves the injection by the Company in Shanghai Shimao of certain of its retail and commercial properties with an aggregate net asset value of RMB7,666.5 million as at 31 August 2007, in exchange for the issue by Shanghai Shimao of 630 million new A shares at subscription price of RMB12.05 each. Moreover, Shanghai Shimao will issue an additional 62,240,000 new A shares to Shimao Enterprises. Upon completion, Shanghai Shimao will become an approximately 64.2% indirectly-owned subsidiary of the Company. The Company will focus on the development and operation of the Group's residential property and hotel projects, whereas Shanghai Shimao will be responsible for the development and operations of commercial property projects.

Upon completion of the Agreement, the non-competition undertakings previously given by the Company and Shanghai Shimao to each other under the Hong Kong non-competition undertaking dated 19 February 2005 will be modified and the arrangements contemplated under the PRC non-competition agreement entered into between the Company, Shanghai Shimao and Mr. Hui Wing Mau ("Mr. Hui") on 22 October 2007 will be effected. In addition to the PRC non-competition agreement, the relevant parties have also entered into a deed of release, a Shimao International deed of release and an amendment to the Hong Kong non-competition agreement to reflect the new commercial circumstances in relation to the existing non-competition arrangements between the Company and its related parties.

Mr. Xu Shiyong is a nephew of Mr. Hui, the Chairman, an Executive Director and controlling shareholder of the Company. Accordingly, Mr. Xu Shiyong is a connected person of the Company by virtue of Rule 14A.11 (4)(c) of the Listing Rules. Mr. Xu Shiyong is the controlling shareholder of Shimao Enterprises holding approximately 93.3% of its issued share capital. Shimao Enterprises in turn hold approximately 37.0% in Shanghai Shimao. Mr. Xu Shiyong's investment in Shimao Enterprises was funded by loan from Mr. Hui, and Mr. Xu Shiyong generally consults Mr. Hui for his opinion before casting his votes as a shareholder of Shimao Enterprises. Hence each of Shimao Enterprises and Shanghai Shimao constitute an associate of Mr. Hui under Rule 1.01(a)(v) of the Listing Rules and is a connected person of the Company.

The Proposed Transaction constitutes a major transaction and a connected transaction of the Company under Chapters 14 and 14A of the Listing rules. As mentioned in the announcement of the Company dated 13 March 2008, the Proposed Transaction has been approved by the independent shareholders of the Company and the shareholders of Shanghai Shimao on 30 November 2007. Shanghai Shimao has submitted, through the Ministry of Commerce of the PRC ("MOFCOM") the relevant documentation and materials for approval. Upon obtaining approval in principal from MOFCOM, the Proposed Transaction shall be implemented subject to fulfillment of the conditions, including but not limited to approval of the China Securities and Regulatory Commission of the PRC for the Proposed Transaction being obtained.

Further details of the Proposed Transaction were set out in the announcement dated 22 October 2007 and circular of the Company dated 15 November 2007.

CONTINUING DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

The Company announced on 13 August 2007 that it entered into a facility agreement (the "Facility Agreement") with certain financial institutions as lenders on 13 August 2007 for certain term and revolving credit facilities of up to US$328,000,000 (the "Facilities"). The Facilities are for an initial period of 36 months from the date of the Facility Agreement but may be extended at the option of the Company to 84 months provided that certain conditions are met.

Pursuant to the Facility Agreement, it will be an event of default if (i) Mr. Hui Wing Mau (together with his associates), the controlling shareholder of the Company, ceases to own, directly or indirectly, at least 51% of the issued share capital of the Company giving rise to at least 51% of the voting rights in the Company or (ii) Mr. Hui Wing Mau ceases to be the Chairman of the Board of the Company. If such an event of default occurs, the Facilities may become immediately due and repayable in accordance with the terms of the Facility Agreement.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2007 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance which it believes is crucial to the development of the Group and safeguard the interests of the shareholders of the Company. Information on the Company's corporate governance principles and practices is set out in the Corporate Governance Report on page 43 to page 49 of this annual report.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board

Hui Wing Mau
Chairman

Hong Kong, 21 April 2008

Corporate Governance Report

Shimao Property Holdings Limited (the "Company") is committed to achieving and maintaining high standards of corporate governance which it believes is crucial to the development of the Company and its subsidiaries (together the "Group") and safeguard the interests of the shareholders of the Company.

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the financial year ended 31 December 2007 except for one deviation as set out under the paragraph on "Chairman and Chief Executive Officer" below.

A Directors

A.1 Board of Directors

The board of directors of the Company (the "Board") consisted of ten directors. The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company's affairs. The Board is committed to the Company's objective of consistent growth and development and increase in shareholder value. The Board sets strategies for the Company and monitors the performance and activities of the executive management.

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. During the year 2007, the Board held six meetings. The attendance of the directors of the Company (the "Directors") at the Board meetings is set out below:

Directors	Number of attendance
Executive Directors	
Hui Wing Mau *(Chairman)*	6/6
Hui Sai Tan, Jason *(Vice Chairman)*	6/6
Yao Li	6/6
Ip Wai Shing	6/6
Tang Ping Fai	6/6
Tung Chi Shing*	N/A
Independent Non-executive Directors	
Kan Lai Kuen, Alice	6/6
Lu Hong Bing	6/6
Gu Yunchang	6/6
Lam Ching Kam	6/6

* Mr. Tung Chi Shing was appointed as Executive Director on 1 January 2008.

A.2 Chairman and Chief Executive Officer

The roles of the chairman and chief executive officer of the Company have not been segregated as required by the provision A.2.1 of the Code.

Mr. Hui Wing Mau is the chairman of the Company and founder of the Group. With Mr. Hui's extensive experience in property development and investment, he is responsible for the overall strategic planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high calibre individuals. The Board currently comprises six Executive Directors and four Independent Non-executive Directors and therefore has a strong independence element in its composition.

A.3 Board Composition

The Company benefits from the collective experience of its Directors, who come from a variety of different backgrounds. Brief biographical particulars of all the Directors, together with information relating to the relationship among them, are set out in the "Directors and Senior Management Profiles" section under this annual report. Their diverse range of business and professional expertise ensures that the Board has the skills and experience necessary to both promote the Company's success and monitor its affairs.

The Board comprises six Executive Directors and four Non-executive Directors. All of the four Non-executive Directors are Independent non-executive Directors who represent more than one-third of the Board. All the Independent Non-executive Directors meet the guidelines for assessment of independence, as set out in Rule 3.13 of the Listing Rules.

A.4 Appointments, Re-election and Removal of Directors

The Company has established a nomination committee on 9 June 2006 with written terms of reference. The Nomination Committee consists of five members, comprising Mr. Hui Wing Mau and the four Independent Non-executive Directors. The chairman of the Nomination Committee is Mr. Hui Wing Mau.

The primary function of the Nomination Committee is to identify and nominate suitable candidates for Board's consideration and recommendation to stand for election by shareholders at annual general meeting, or when necessary, make recommendations to the Board regarding candidates to fill vacancies on the Board.

Attendance of individual members at Nomination Committee meeting during the year is as follows:

Directors	Number of attendance
Hui Wing Mau *(Committee Chairman)*	1/1
Kan Lai Kuen, Alice	1/1
Lu Hong Bing	1/1
Gu Yunchang	1/1
Lam Ching Kam	1/1

Each of the Directors has entered into a service contract with the Company for a specific term. However, such term is subject to his/her re-appointment by the Company at general meeting upon retirement by rotation pursuant to the articles of association of the Company (the "Articles"). The Articles state that each Director shall retire from office by rotation at least once every three years after he was last elected or re-elected and Directors holding offices as chairman and managing director are also subject to retirement by rotation. The Articles also provide that any Director appointed by the Board, either to fill a casual vacancy on the Board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A.5 Responsibilities of Directors

Every newly appointed Director shall receive an information package from the company secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director. In addition, the package includes materials on the operations and business of the Company. The senior management and the company secretary will subsequently conduct such briefing as is necessary, to ensure that the Directors have a proper understanding of the operations and business of the Company and that they are aware of their responsibilities under the laws and applicable regulations.

Management provides appropriate and sufficient information to Directors in a timely manner to keep them apprised of the latest development of the Group and enable them to discharge their responsibilities. Directors also have independent access to senior executives in respect of operating issues.

Every Director is aware that he should give sufficient time and attention to the affairs of the Company. The Directors are continually updated with legal and regulatory developments, business and market changes and strategic development of the Group to facilitate the discharge of their responsibilities.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All Directors confirmed they had complied with the required standard set out in the Model Code during the year.

A.6 Supply of and Access to Information

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying Board papers are sent in full to all Directors in a timely manner.

The Directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

B Remuneration of Directors and Senior Management

B.1 The Level and Make-up of Remuneration of Directors and Senior Management and Disclosure

The Company has established a remuneration committee on 9 June 2006 with written terms of reference. The Remuneration Committee consists of five members, comprising Mr. Hui Wing Mau and the four Independent Non-executive Directors. The chairman of the Remuneration Committee is Mr. Hui Wing Mau.

The primary functions of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration package of the directors and senior management and evaluate, make recommendations on the Company's share option schemes, retirement scheme, performance assessment system and bonus and commission policies.

Attendance of individual members at Remuneration Committee meeting during the year is as follows:

Directors	Number of attendance
Hui Wing Mau *(Committee Chairman)*	1/1
Kan Lai Kuen, Alice	1/1
Lu Hong Bing	1/1
Gu Yunchang	1/1
Lam Ching Kam	1/1

During the year the Remuneration Committee has reviewed the structure of remunerations for Directors and senior management of the Company. Details of the Directors' remuneration are set out in note 29 to the consolidated financial statements of this annual report.

C Accountability and Audit

C.1 Financial Reporting

The Directors are responsible for overseeing the preparation of the financial statements for each financial period which give a true and fair view of the Group's state of affairs and the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate accounting standards; made judgements and estimates that are prudent and reasonable; and ensured the accounts are prepared on the going concern basis.

The Company recognizes that high quality corporate reporting is important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. The annual and interim results of the Company are announced in a timely manner within the limit of 4 months and 3 months respectively after the end of the relevant periods.

A statement by the external auditors about their reporting responsibilities is included in the Independent Auditor's Report on pages 57 and 58 of this annual report.

C.2 Internal Controls

The Group has established an internal audit department which plays an important role in the Group's internal control system. The Internal Audit Department provides an independent appraisal of the Group's financial and operational activities and makes recommendations to the relevant management for necessary actions. The results of the internal audit reviews are reported to the Executive Directors and audit committee of the Company periodically. The Directors have reviewed the effectiveness of the Group's internal control system covering financial, operational, compliance and risk management functions for the year 2007.

C.3 Audit Committee

The Company has established an audit committee on 9 June 2006 with written terms of reference pursuant to the rules set out in Chapter 3 of the Listing Rules. The Audit Committee consists of four members, namely Ms. Kan Lai Kuen, Alice, Mr. Lu Hong Bing, Mr. Gu Yunchang and Mr. Lam Ching Kam. All of them are Independent Non-executive Directors. The chairman of the Audit Committee is Ms. Kan Lai Kuen, Alice.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditors and provide advice and comments to the Directors.

Full minutes of Audit Committee meetings are kept by the company secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Audit Committee for their comment and records respectively.

The Audit Committee meets the external auditors at least once a year to discuss any areas of concerns during the audits. The Audit Committee reviews the interim and annual reports before submission to the Board. The Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

Attendance of individual members at Audit Committee meetings during the year is as follows:

Directors	Number of attendance
Kan Lai Kuen, Alice *(Committee Chairman)*	2/2
Lu Hong Bing	2/2
Gu Yunchang	2/2
Lam Ching Kam	2/2

The major work performed by the Audit Committee during the year included, among other things, reviewing the internal audit report, internal audit plan, annual report, interim report and connected transactions.

The remuneration to the Company's auditor, Messrs. PricewaterhouseCoopers, in respect of the services rendered for the year ended 31 December 2007 is set out as follows:

Services rendered	RMB'000
Audit service	3,100
Other services	
Review of interim financial information	1,800
Service provided in respect of the major and connected transaction	2,000
	6,900

The Audit Committee is provided with sufficient resources, including the advice of external auditors to discharge its duties.

The consolidated annual results of the Group for the year ended 31 December 2007 have been reviewed by the Audit Committee.

D Delegation by the Board

D.1 Management Functions

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group whilst managing the Group's business is the responsibility of the management.

Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports, announcements and circulars for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of systems of internal controls and risk management procedures, compliance with relevant statutory requirements and rules and regulations.

D.2 Board Committees

Where board committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.

The terms of reference of the above-mentioned committees require such committees to report back to the Board on their decisions or recommendations. Material matters will be reported to the Board by the other board committees according to their respective terms of reference.

E Communication with shareholders

E.1 Effective Communication

The management believes that effective communication with the investment community is essential. During the year, the Executive Directors and Chief Financial Officer held regular briefings, attended investor forums and participated in roadshows with institutional investors and financial analysts in the PRC, Hong Kong and overseas countries to keep them abreast of the Company's business and development.

The annual general meeting provides a useful forum for the shareholders to exchange views with the Board. The Directors and Chief Financial Officer will attend the shareholder's meetings to answer the questions of shareholders. In addition, questions received from the general public and individual shareholders were answered promptly. Published documents together with the latest corporate information and news are made available on the Company's website.

E.2 Voting by Poll

It has been a practice of the Company to conduct poll voting at general meetings so that each share is entitled to one vote. Details of the poll voting procedures and the rights of shareholders to demand a poll are included in circulars to the shareholders.

The Board will continue to devote efforts to maintain good corporate governance practices of the Company in future with a view to continuously enhancing shareholder value as a whole.

Directors and Senior Management Profiles

DIRECTORS

Executive Directors

Hui Wing Mau *(Chairman)*

Mr. Hui Wing Mau, aged 57, is the Chairman and Executive Director of Shimao Property Holdings Limited ("the Company", together with its subsidiaries, the "Group") and the founder of the Group. With over 18 years' experience in property development, property investment and hotel operation, he is primarily responsible for the Group's overall strategic planning and business management. Mr. Hui is currently a member of the National Committee of the Eleventh Chinese People's Political Consultative Conference, vice chairman of the China National Federation of Industry and Commerce, vice president of China Overseas Chinese Entrepreneurs Association, chairman of Shanghai Overseas Chinese Chamber of Commerce, vice chairman of China Housing Industry Association, a council member of the China Overseas Friendship Association, an honorary professor of Tong Ji University in Shanghai and vice chairman of the Beijing University of Chemical Technology. Mr. Hui obtained a Masters Degree in Business Administration from the University of South Australia. Mr. Hui is also the non-executive chairman of Shanghai Shimao Co., Ltd. and Shimao International Holdings Limited ("Shimao International"). He is a director of Gemfair Investments Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Future Ordinance. He has been an Executive Director of the Company since 8 November 2004. Mr. Hui is the father of Mr. Hui Sai Tan, Jason, the Vice Chairman and Executive Director of the Company.

Hui Sai Tan, Jason *(Vice Chairman)*

Mr. Hui Sai Tan, Jason, aged 31, the Vice Chairman and Executive Director of the Company. He has been the Group Sales Controller since he joined the Group in March 2000. Mr. Jason Hui is responsible for the sales, marketing, management and design of the Group's projects. He has more than 9 years' experience in the property development industry and has presided over the sales and marketing of Shanghai Shimao Riviera Garden which boasted top sales proceeds among residential projects in Shanghai for four consecutive years from 2001 to 2004. Mr. Jason Hui obtained a Masters Degree in Business Administration from the University of South Australia in 2004, and a Master of Science Degree in Real Estate from the University of Greenwich, the United Kingdom in 2001. He is a member of Shanghai Committee of the Chinese People's Political Consultative Conference. He has been an Executive Director of the Company since 17 November 2004 and was an executive director of Shimao International from July 2002 to June 2006. Mr. Jason Hui is the son of Mr. Hui Wing Mau, the Chairman and Executive Director of the Company.

Yao Li

Ms. Yao Li, aged 53, has been the Group Operations Controller since November 2002. Ms. Yao is responsible for human resources management, training, property management, information technology and administrative support of the Group. Ms. Yao obtained a Masters Degree in Business Administration from the University of South Australia in 2003. She has more than 22 years' experience in office administration, human resources management and staff training. Ms. Yao worked for China Construction Bank from 1984 to 2002 and was posted to Hong Kong and Johannesburg between 1994 and 2002. She held various positions in the bank and was the Head of the Hong Kong Training Centre. She was an executive director of Shimao International from February 2004 to February 2005. Ms. Yao has been an Executive Director of the Company since 25 January 2006.

Ip Wai Shing

Mr. Ip Wai Shing, aged 52, has been the Group Construction Controller since joining the Group in July 2003. Mr. Ip is responsible for project management support and quality assurance of the Group's projects. He obtained a Higher Certificate in Civil Engineering from Hong Kong Polytechnic in 1978. Mr. Ip has more than 30 years' experience in construction and project management, of which over 20 years are in China. Prior to joining the Group, he served as project manager of Shui On (China) Ltd., Goldnice Investments Corp., Tian An (China) Investment Co., Ltd. and the Kerry Group from 1986 to 2002. Mr. Ip has also been involved as project manager in a number of property projects including the Royal Garden Hotel in Hong Kong in the 1980's, Dorchester Tower and Brunswick Garden in Canada from 1989 to 1991 and Wuhan Tian An Holiday Inn Hotel, Wuhan Shangri-La Hotel, Harbin Shangri-La Hotel and Beijing China World Trade Center Phase III from 1993 to 2002 in China. He was an executive director of Shimao International from February 2004 to February 2005. Mr. Ip was registered as a Technician Engineer CEI of the Council of Engineering Institutions. Mr. Ip has been an Executive Director of the Company since 25 January 2006.

Tang Ping Fai

Mr. Tang Ping Fai, aged 54, has been the Group Contracts Controller since March 2002. Mr. Tang is responsible for monitoring construction budgets, tendering, cost control and contract administration for the Group's projects. He obtained a Masters Degree in Project Management from the University of New South Wales in Australia in 1994. Mr. Tang has more than 28 years' experience in the construction industry. He was a project surveyor of Langdon Every and Seah (Hong Kong) Limited from 1978 to 1988, chief quantity surveyor of China Overseas Building Development Co. Ltd. in 1988, a team leader of Davis Langdon and Seah (China) Limited from 1989 to 1991 and contracts manager of China World Trade Centre Ltd. from 1993 to 2000. Mr. Tang was in charge of a number of property projects as project surveyor, including the Swire Hall of the University of Hong Kong, Sir Run Run Shaw Hall of the Chinese University of Hong Kong, the Hong Kong Convention and Exhibition Centre (Phase I) and China World Trade Centre (Phases I and II) in Beijing. He was an executive director of Shimao International from February 2004 to February 2005. Mr. Tang is a chartered project management surveyor, a chartered quantity surveyor, a property and facility management surveyor and a fellow member of the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. Mr. Tang has been an Executive Director of the Company since 25 January 2006.

Tung Chi Shing

Mr. Tung Chi Shing, aged 47, was appointed an Executive Director of the Company on 1 January 2008. He is responsible for the monitoring of project management for the Group's development projects and quality assurance. Mr. Tung graduated from The Hong Kong Polytechnic University and has worked in the Public Works Department of the Hong Kong Government, Dragages et Travaux Publics, FJT (HK) Ltd. and HCCM Nuclear Power Construction Joint Venture Company as quantity surveyor in Hong Kong and was involved in a number of projects including Island Shangri-La and Conrad Hong Kong in Pacific Place, Hong Kong, Phase 1B of the University of Hong Kong, Stanley Fort Married Quarters, the Pumping Station Areas of the Daya Bay Nuclear Power Station and a Xian five-star hotel in the PRC. He was an executive director of Shimao International from February 2005 to December 2007.

Independent Non-executive Directors

Kan Lai Kuen, Alice

Ms. Kan Lai Kuen, Alice, aged 53, has been an Independent Non-executive Director of the Company since 16 March 2006 and has more than 16 years' experience in corporate finance. She is a shareholder, managing director and responsible officer of two licensed corporations under the Securities and Futures Ordinance, Asia Investment Management Limited and Asia Investment Research Limited. She is also responsible officer of Lotus Asset Management Limited. Ms. Kan currently serves as an independent non-executive director on the boards of the following companies which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"): Shougang Concord Technology Holdings Limited, Shougang Concord International Enterprises Company Limited, Regal Hotels International Holdings Limited, G-Vision International (Holdings) Limited, Sunway International Holdings Limited and CASIL Telecommunications Holdings Limited. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Directors. Ms. Kan held various senior positions in international and local banks and financial institutions.

Lu Hong Bing

Mr. Lu Hong Bing, aged 41, has been an Independent Non-executive Director of the Company since 17 November 2004. He obtained a Masters Degree in law from the East China University of Politics and Law in 1991 and has more than 15 years' experience in corporate and securities laws in China. He joined Shimao International in October 2001 and was an independent non-executive director of Shimao International from October 2001 until he stepped down from this position in February 2005 to become an Independent Non-executive Director of the Company. Mr. Lu currently serves as an independent non-executive director on the boards of the following companies which are listed on the Shanghai Stock Exchange: Shanghai Pudong Road & Bridge Construction Co., Ltd (上海浦東路橋建設股份有限公司), Shanghai Aerospace Automobile Electromechanical Co., Ltd.(上海航天汽車機電股份有限公司) and Shanghai Shentong Metro Co., Ltd (上海申通地鐵股份有限公司). Mr. Lu is an executive partner of the Grandall Legal Group, the president of the Shanghai Bar Association, a member of the Executive Council of the All China Lawyers Association, an arbitrator of the China International Economic and Trade Arbitration Commission, an arbitrator of the Shanghai Arbitration Committee, a concurrent professor of the East China University of Policies and Law and the Shanghai Institute of Foreign Trade and a commissioner of the public offering commission of the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Gu Yunchang

Mr. Gu Yunchang, aged 64, has been an Independent Non-executive Director of the Company since April 2006. He joined the Ministry of Construction in 1979 and has over 27 years' experience in market theory and policy research, including research and analysis of the PRC property market. In 1983, he was appointed as the Secretary-General of the China Residential Property Issues Research Institute (中國住宅問題研究會) and held this position for a period of 10 years. Between 1986 and 1998, he participated in the research and formulation of the national housing policy reform and in 1998, served as one of the main draftsman for the national housing reform program in the PRC. Mr. Gu has participated in state level research projects such as "2000 China" (《2000年中國》) and "National Xiaokang Residential Property Technological Industry Project" (《小康住宅科技產業工程》). Mr. Gu has been awarded the First Class National Science Technology Advance Award (國家科技進步一等獎) in China twice. Mr. Gu was appointed vice-president and secretary-general of the China Real Estate Association (中國房地產業協會) from August 1998 to March 2006, and since 1998, he has been involved in promoting the development of the China real estate industry as well as undertaking the research and analysis of the China real estate market. He is also the main organizer and writer of the China Real Estate Market Report, an annual analysis report issued by the China Real Estate Association. Mr. Gu is currently the vice president of China Real Estate and Housing Research Association and an independent non-executive director of Sino-Ocean Land Holdings Limited, a company listed on the Stock Exchange.

Lam Ching Kam

Mr. Lam Ching Kam, aged 47, has been an Independent Non-executive Director of the Company since June 2006. He is currently a fellow member and the committee member of the PRC committee (Quantity Surveying Division) of the Hong Kong Institute of Surveyors. Mr. Lam obtained a Masters Degree in Business Administration from the Hong Kong Open University in 2004 and is a fellow member of the Chartered Institute of Building and the Royal Institution of Chartered Surveyors. Mr. Lam was the Vice Chairman of the Royal Institution of Chartered Surveyors China group from 2003 to 2006. He is a member of the China Civil Engineering Society (中國土木工程師學會會員) and also a qualified China Costing Engineer (中國造價工程師執業資格). Mr. Lam has been a consultant to the Beijing Construction Project Management Association (北京市建設監理協會) since 2003 and has engaged in professional training and vocational education in China for more than 5 years. Mr. Lam has been in the property development and construction industry for 23 years, and has worked for property contractors such as Shui On Building Contractors Limited, China State Construction Engineering Corporation and Hopewell Construction Co. Ltd. Mr. Lam was employed as a quantity surveyor and worked in London from 1990 to 1991. He was employed by certain consultant firms and the Architectural Services Department of the Hong Kong Government before he emigrated to Australia in 1996 and operated a project management firm in Sydney. Mr. Lam was the representative of Sino Regal Ltd. (HK) for investment projects in China from 1994 to 1996. In 1998, Mr. Lam established a surveying and management consultant firm which has been participating in many large-scale projects in China and Macau, including a Beijing Olympic 2008 project involving the hotels, offices towers and commercial complex in Olympic Park, Beijing.

SENIOR MANAGEMENT

Mr. Hui Wai Man, Lawrence, aged 51, has been the Vice President and Chief Financial Officer of the Company since November 2005. Mr. Lawrence Hui is responsible for the finance-related matters of the Group. Mr. Lawrence Hui obtained a Bachelors Degree in Arts from Manchester Polytechnic, the United Kingdom (now known as Manchester Metropolitan University) in 1982 and has over 25 years' experience in corporate finance, project finance, taxation, accounting and audit. Prior to joining the Group, Mr. Lawrence Hui worked in a number of companies, including as an executive director and chief financial officer of several companies including Guangdong Alliance Limited, Guangdong Tannery Limited, Guangnan (Holdings) Limited and Kingway Brewery Holdings Limited, finance manager of Cheung Kong (Holdings) Limited, general manager (corporate finance, leasing and property sales) of Sino Land Company Limited and group financial controller of Lai Fung Company Limited. Mr. Lawrence Hui is a fellow of the Hong Kong Institute of Certified Public Accountants, an associate of the Association of Chartered Certified Accountants and The Institute of Chartered Accountants in England and Wales.

Mr. Xu Younong, aged 49, has joined the Group since June 2001. Mr. Xu is currently a Vice President and Regional President of the Company, responsible for project management of the Group's projects. Mr. Xu obtained a Bachelors Degree of Engineering from Tong Ji University in Shanghai in 1982. He has over 25 years' experience in architectural design and project management. Prior to joining the Group, he worked for Shanghai Building Material Industry Design Institute (上海市建築材料工業設計研究院) from 1983 to 1992 as an engineer and designer. From 1993 to 2001, he worked for Shanghai Fortune World Development Company Limited as project manager.

Mr. Liu Saifei, aged 46, has joined the Group since 2003. Mr. Liu is currently a Vice President and Regional Project Controller of the Company, responsible for project management of the Group's projects. He obtained a Masters Degree in Project Management from the University of Sydney, Australia in 2000. Mr. Liu has over 19 years' experience in architectural design and project management. Prior to joining the Group, he worked for CRG Contractors Dte from 1998 to 2001. From 2001 and 2003, he worked for Shanghai Merry Land Co. Ltd. as project manager.

Ms. Tang Fei, aged 37, has joined the Group since July 2004. Ms. Tang is currently an Assistant President and Audit Controller of the Company, responsible for the internal control of the Group. Ms. Tang obtained a Masters Degree in Business Administration from the University of South Australia in 2002, and has over 15 years' experience in internal audit. Prior to joining the Group, Ms. Tang worked in the internal audit department of Bank of China from 1992 to 1998. She also worked in the audit department and treasury department of Bank of China (Hong Kong) Limited from 2000 to 2004.

Mr. Yip Chi Wai, aged 41, has joined the Group since May 2003. Mr. Yip is currently an Assistant President of the Company and the Group Architectural Design Controller. Mr. Yip is responsible for the architectural design of the Group's projects and has more than 13 years' experience in architectural design. Mr. Yip obtained a Bachelors Degree in Architecture from the Royal Melbourne Institute of Technology (now known as Royal Melbourne Institute of Technology University), Australia in 1995. Prior to joining the Group, Mr. Yip was a senior architect of an architectural firm in Hong Kong from 1994 to 2003. Mr. Yip has been involved in a number of property projects as architectural designer and project manager in Hong Kong and in China, including the executive building of the Hong Kong Jockey Club in Hong Kong, the award-winning Golden Land Gardens in Shenzhen and the Shanghai Square in Shanghai. Mr. Yip is a registered architect in Hong Kong, a member of the Hong Kong Institute of Architects and has a Class I Registered Architect Qualification in the PRC.

Mr. Tao Yong, aged 45, joined the Group in June 2001 and is currently an Assistant President and Development and Planning Controller of the Company. Mr. Tao is responsible for the development and planning of the Group's projects and has more than 20 years' experience in architectural design. Mr. Tao obtained a Masters Degree in Architecture from the Huazhong Institute of Science and Technology in 1986 and a Bachelors Degree in Architecture from Tsinghua University in 1983. Prior to joining the Group, Mr. Tao worked as an architect in Shanghai Architectural Design Institute from 1986 to 1991, an architect in Tsinghua University Architectural Design Institute Shenzhen Office from 1995 to 1998, a chief architect of a property development in Shenzhen from 1998 to 2001. From 1995 to 2001, Mr. Tao was involved as an architect in a number of property projects in the PRC, including Garden Hills and Zhaoshang Mingshi Garden in Shenzhen.

Mr. Tang Dock Chung, aged 51, joined the Group in April 2005 and is currently an Assistant President of the Company and the Group Hotel Management Controller. Mr. Tang is responsible for managing the Group's hotel business. Mr. Tang obtained a Bachelors Degree in Business Administration, majoring in Hotel Management and Accounting, from the University of Hawaii in 1980 and has over 28 years' experience in the hospitality industry. Prior to joining the Group, Mr. Tang worked in the InterContinental Hotels Group from 1979 to 2005 with his last position being the Regional Director of Hotel Finance and Business Support in North Asia.

Mr. Lam Kit Wah, aged 50, has been the Group Interior Design Controller since November 2000. Mr. Lam is responsible for supervising the interior design of all of the Group's projects. Mr. Lam obtained a Masters Degree in Interior Design from Manchester Polytechnic, the United Kingdom (now known as Manchester Metropolitan University) in 1992 and has more than 15 years' experience in interior design and worked as a designer for a number of international architectural and design firms from 1992 to 2000. Mr. Lam has been involved in a number of property projects in Hong Kong as interior designer, including Dynasty Court at Old Peak Road in 1994, the villas at Repulse Bay in 1996 and the Hong Kong international airport (Northwest Extension) in 2000.

Mr. Wang Jenn Kuo, aged 43, has joined the Group since May 2005 and is currently the Company's Leasing Controller, responsible for the leasing affairs of the Group. Mr. Wang graduated from Taiwan's Fu Jen University (Department of Financial and Economic) in 1988. Mr. Wang has over 17 years' experience in property leasing and sales. Prior to joining the Group, Mr. Wang worked for Shanghai Kong Hui Property Development Co., Ltd. of Hang Lung Group, Hong Kong as vice marketing controller from 1997 to 2003. Mr. Wang also worked for Shanghai Gang Hong Industrial Development Company Limited as marketing controller from 2003 to 2005.

Mr. Qin Hua, aged 35, has joined the Group since January 2001 and is currently the Company's Sales Controller, responsible for the sales and marketing of the Group. He graduated from Tong Ji University (Adult Education Institute), Shanghai in 2000, studying corporate management. Mr. Qin has over 15 years' experience in property sales and marketing. Prior to joining the Group, he worked for Shanghai Kiu Lok Property Services Co. Ltd. and Shanghai Thakral Electronics Industrial Corp., Ltd as sales controller.

Ms. Lam Yee Mei, Katherine, aged 41, has been the Company Secretary of the Company since January 2006. Ms. Lam obtained a Bachelors Degree and a Masters Degree in Law from the University of London and has over 17 years' experience in company secretarial practice. Prior to joining the Company, Ms. Lam was the company secretary of Kingway Brewery Holdings Limited from 1997 to 2005. Ms. Lam is an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

Mr. Ng Yu Yuet, aged 36, has been a member of senior management and the qualified accountant of the Company since December 2004. Mr. Ng is responsible for the general financial matters of the Group. He obtained a Masters Degree in Business Administration in 2004 and has more than 14 years' experience in auditing, accounting and finance. Prior to joining the Company, Mr. Ng was the finance manager of Shimao International from July 2001 to 2004. He has also worked for a number of local and international accounting firms in Hong Kong and a company listed on the Stock Exchange, between the years of 1993 to 2001. Mr. Ng is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF SHIMAO PROPERTY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shimao Property Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 59 to 140, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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.

Auditor's responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 April 2008

Consolidated Balance Sheet

As at 31 December 2007

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**4,990,516**	4,609,870
Investment properties	7	**5,852,000**	4,000,000
Land use rights	8	**6,581,082**	1,349,192
Intangible assets	10	**415,995**	475,023
Associated companies	14	**295,142**	311,247
Jointly controlled entity	15	**2,662**	487
Deferred income tax assets	23	**441,570**	123,725
Other non-current assets	9	**3,149,502**	3,013,981
		21,728,469	13,883,525
Current assets			
Land use rights under development	8	**7,270,973**	3,007,728
Properties under development	11	**2,546,641**	2,384,511
Completed properties held for sale	12	**1,521,688**	1,785,438
Trade and other receivables and prepayments	16	**1,124,079**	564,264
Prepaid income taxes		**35,082**	46,970
Amounts due from related companies	17	**31,477**	601
Amount due from a minority interest	18	**6,262**	—
Restricted cash	19	**409,553**	73,501
Cash and cash equivalents	19	**4,596,378**	5,949,589
		17,542,133	13,812,602
Total assets		**39,270,602**	27,696,127
OWNERS' EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	20	**340,382**	317,521
Reserves			
— Proposed final dividend	21	**494,088**	615,859
— Others	21	**17,613,714**	10,594,989
		18,448,184	11,528,369
Minority interests in equity		**364,024**	—
Total equity		**18,812,208**	11,528,369

As at 31 December 2007

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	**10,384,037**	6,470,680
Deferred income tax liabilities	23	**1,639,444**	1,216,802
		12,023,481	7,687,482
Current liabilities			
Trade and other payables	24	**3,850,927**	3,800,392
Advanced proceeds received from customers		**499,980**	1,065,310
Amount due to a related company	25	**—**	249,850
Income tax payable		**2,831,555**	1,712,415
Borrowings	22	**1,252,451**	1,652,309
		8,434,913	8,480,276
Total liabilities		**20,458,394**	16,167,758
Total equity and liabilities		**39,270,602**	27,696,127
Net current assets		**9,107,220**	5,332,326
Total assets less current liabilities		**30,835,689**	19,215,851

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

Balance Sheet of The Company

As at 31 December 2007

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	13	**262,362**	223,805
Current assets			
Amounts due from subsidiaries	13	**20,038,297**	7,846,913
Other receivables and prepayments	16	**63,371**	16,668
Cash and cash equivalents	19	**452,409**	4,100,786
		20,554,077	11,964,367
Total assets		**20,816,439**	12,188,172
OWNERS' EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	20	**340,382**	317,521
Reserves			
— Proposed final dividend	21	**494,088**	615,859
— Others	21	**11,216,328**	6,629,342
Total equity		**12,050,798**	7,562,722

As at 31 December 2007

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	**6,647,603**	4,572,995
Current liabilities			
Borrowings	22	**234,100**	—
Other payables and accruals	24	**48,059**	52,455
Amounts due to subsidiaries	13	**1,835,879**	—
		2,118,038	52,455
Total liabilities		**8,765,641**	4,625,450
Total equity and liabilities		**20,816,439**	12,188,172
Net current assets		**18,436,039**	11,911,912
Total assets less current liabilities		**18,698,401**	12,135,717

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

Consolidated Income Statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Revenue	5	**9,275,925**	6,913,442
Cost of sales	27	**(5,315,775)**	(4,077,436)
Gross profit		**3,960,150**	2,836,006
Fair value gains on investment properties	7	**1,155,253**	1,000,831
Other gains	26	**1,614,054**	73,625
Selling and marketing costs	27	**(192,433)**	(207,576)
Administrative expenses	27	**(757,384)**	(460,008)
Other operating expenses	27	**(117,412)**	(143,853)
Operating profit		**5,662,228**	3,099,025
Finance income		**102,543**	83,753
Finance costs		**(269,774)**	(44,719)
Finance (costs)/income — net	28	**(167,231)**	39,034
Share of results of:			
— Associated companies	14	**112,870**	201,027
— Jointly controlled entity	15	**175**	(13)
		113,045	201,014
Profit before income tax		**5,608,042**	3,339,073
Income tax expense	30	**(1,434,257)**	(1,060,323)
Profit for the year		**4,173,785**	2,278,750
Attributable to:			
Equity holders of the Company		**4,091,782**	2,278,750
Minority interests		**82,003**	—
		4,173,785	2,278,750
Dividends	31	**974,917**	615,859
Earnings per share for profit attributable to the equity holders of the Company			
— basic (RMB)	32	**1.274**	0.855
— diluted (RMB)	32	**1.262**	0.851

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Note	Attributable to the equity holders of the Company			
		Share capital RMB'000	Reserves RMB'000 (Note 21)	Minority interests RMB'000	Total RMB'000
Balance at 1 January 2007		**317,521**	**11,210,848**	**—**	**11,528,369**
Profit for the year		**—**	**4,091,782**	**82,003**	**4,173,785**
Issue of shares for placement	20(a)(vi)	**21,506**	**3,775,339**	**—**	**3,796,845**
Minority interest arising from disposal of interest in a subsidiary	26(a)	**—**	**—**	**248,470**	**248,470**
Acquisition of subsidiaries	38	**—**	**—**	**33,551**	**33,551**
Employee share option scheme					
— value of employee services		**—**	**38,557**	**—**	**38,557**
— proceeds from shares issued	20(b)	**1,355**	**78,260**	**—**	**79,615**
Dividends	31	**—**	**(1,086,984)**	**—**	**(1,086,984)**
Balance at 31 December 2007		**340,382**	**18,107,802**	**364,024**	**18,812,208**
Balance at 1 January 2006					
— Issue of shares for the Reorganisation	20(a)(ii)	185,787	(185,787)	—	—
— Others		—	2,510,218	—	2,510,218
		185,787	2,324,431	—	2,510,218
Profit for the year		—	2,278,750	—	2,278,750
Issue of shares for settlement of debts	20(a)(iii)	22,093	892,578	—	914,671
Issue of shares to financial investors	20(a)(iv)	39,429	1,592,922	—	1,632,351
Issue of shares in connection with the listing	20(a)(v)	70,212	4,318,027	—	4,388,239
Share issuing expenses		—	(233,879)	—	(233,879)
Employee share option scheme					
— value of employee services		—	38,019	—	38,019
Balance at 31 December 2006		317,521	11,210,848	—	11,528,369

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Operating activities			
Net cash used in operations	33	**(2,669,727)**	(3,645,859)
Interest received		**107,579**	77,665
Interest paid		**(569,623)**	(222,500)
PRC income tax paid		**(517,683)**	(534,304)
Net cash used in operating activities		**(3,649,454)**	(4,324,998)
Investing activities			
Additions of property, plant and equipment and investment properties		**(1,301,662)**	(1,520,566)
Sales of property, plant and equipment		**2,273**	27,542
Additions of land use rights		**(2,348,237)**	(32,000)
Consideration paid for acquisition of a subsidiary in prior year		**—**	(82,236)
Dividend received from associated companies		**128,975**	40,000
Increase in amount due from a minority interest		**(6,262)**	—
Acquisitions of subsidiaries, net of cash acquired	38	**(1,391,409)**	—
Capital injection to a jointly controlled entity		**(2,000)**	—
Partial disposal of a subsidiary	26(a)	**1,000,000**	—
Net cash used in investing activities		**(3,918,322)**	(1,567,260)
Financing activities			
Proceeds from borrowings		**7,048,660**	1,745,486
Repayments of borrowings		**(3,189,660)**	(821,183)
Decrease in amount due to a related company		**(280,725)**	(101,312)
Issue of senior notes		**—**	4,590,087
Issue of new shares		**3,876,460**	5,786,711
Dividends paid to equity holders of the Company		**(1,086,984)**	—
Net cash generated from financing activities		**6,367,751**	11,199,789
Net (decrease)/increase in cash and cash equivalents		**(1,200,025)**	5,307,531
Cash and cash equivalents at beginning of the year		**5,949,589**	704,680
Effect of foreign exchange rate changes		**(153,186)**	(62,622)
Cash and cash equivalents at end of the year	19	**4,596,378**	5,949,589

Notes to the Consolidated Financial Statements

1 General information

Shimao Property Holdings Limited (the "Company") was incorporated in the Cayman Islands on 29 October 2004 as an exempted company with limited liability under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the "Group") are property development, property investment and hotel operation in the People's Republic of China (the "PRC").

The Group had undertaken a reorganisation (the "Reorganisation") for the purpose of its listing. Pursuant to the Reorganisation, which was completed on 26 January 2006, the Company acquired the entire equity interests in Shimao Property Holdings (BVI) Limited ("SPHL(BVI)") by issuing shares to their common shareholder, Gemfair Investments Limited ("Gemfair"), and became the holding company of the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 22 June 2006.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 July 2006.

These consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(a) Basis of preparation

The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for under the Accounting Guideline No. 5 "Merger Accounting for Common Control Combination", using the principles of merger accounting, under which the consolidated financial statements have been prepared as if the Reorganisation had been completed on 1 January 2006, the beginning of the earliest period presented, and the business of SPHL(BVI) and its then subsidiaries had always been carried out by the Group.

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

In 2007, the Group adopted the following new standards, amendments and interpretation of HKFRS, which are effective for the financial year ended 31 December 2007 and are relevant to the Group's operations:

- HKFRS 7 "Financial Instruments: Disclosures", and a complementary amendment to HKAS 1 "Presentation of Financial Statements — Capital Disclosures". This standard and amendment introduces new disclosures relating to financial instruments and does not have any significant impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- HK(IFRIC)–Int 8 "Scope of HKFRS 2". It requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This interpretation does not have any significant impact on the Group's consolidated financial statements.

- HK(IFRIC)–Int 9 "Reassessment of Embedded Derivatives". It requires that embedded derivatives are assessed for separation from the host contract when the entity becomes a party to the contract. It does not have any significant impact on the Group's consolidated financial statements.

- HK(IFRIC)–Int 10 "Interim Financial Reporting and Impairment". It prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any significant impact on the Group's consolidated financial statements.

Starting from 2006, the Group chose to early adopt the following interpretation which is not yet effective for the financial years ended 31 December 2006 and 2007:

- HK(IFRIC)–Int 11 "HKFRS 2 — Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC)–Int 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and the group companies. This interpretation does not have any significant impact on the Group's consolidated financial statements.

Certain new standards, amendments and interpretations to existing standards of HKFRS have been published but are not yet effective for annual period beginning on 1 January 2007 and have not been early adopted by the Group. Those that are relevant to the Group's operations are as follows:

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- HKFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 supersedes HKAS 14, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. The Group will apply this standard from 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated financial statements.

- HKAS 23 (Amendment) "Borrowing Costs" (effective for annual periods beginning on or after 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply this amendment from 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated financial statements.

- HK(IFRIC)–Int 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). This interpretation clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group will apply this interpretation from 1 January 2009 and currently is assessing the impact, but it is not expected to have any significant impact on the Group's revenue recognition policies and consolidated financial statements.

- HKAS 1 (Revised) "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009). It revises certain requirements for the presentation of financial statements such as all non-owner changes to be presented in one statement of comprehensive income or in income statement and statement of comprehensive income separately; and in case of retrospective restatements, a statement of financial position as at the beginning of earliest comparative period to be presented. The Group will apply this revised standard from 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated financial statements.

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- HKFRS 3 (Revised) "Business Combinations" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

The Group has assessed the other recently published new standards, amendments and interpretations to existing standards of HKFRS, and concluded that they are not relevant to the Group's operations. These are set out as follows:

- HK(IFRIC)–Int 12 "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008).

- HK(IFRIC)–Int 14 "HKAS19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2008).

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting.

2 Summary of significant accounting policies (continued)

(b) Consolidation (continued)

(i) Subsidiaries (continued)

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (see Note 2(i)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference being negative goodwill is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests generally result in goodwill, being the excess of any consideration paid over the relevant share acquired of the carrying value of net assets of the subsidiary. If the cost of acquisition is less than the relevant interest acquired of the carrying value of net assets of the subsidiary, the difference being negative goodwill is recognised directly in the consolidated income statement.

2 Summary of significant accounting policies (continued)

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group companies are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Company.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of their fair value gain or loss.

(iii) Group companies

The results and financial positions of all the group companies (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:

- Assets and liabilities are translated at the closing rate;
- Income and expenses are translated at average exchange rates; and
- 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 operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is sold, exchange differences that were recorded in equity 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.

2 Summary of significant accounting policies (continued)

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings comprise hotel buildings and self-use buildings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

Buildings	50 years or the remaining lease period of the land use rights, whichever is shorter
Furniture and equipment	5 years
Motor vehicles	10 years
Building improvements	10 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recorded in the consolidated income statement.

(f) Assets under construction

Assets under construction are stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, amortisation of land use rights, borrowing costs and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property, plant and equipment or to investment properties.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(g) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the group companies, is classified as investment property.

2 Summary of significant accounting policies (continued)

(g) Investment property (continued)

Investment property comprises land held under operating leases and buildings owned by the Group. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed at each balance sheet date by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land (if any) classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Changes in fair values of investment property are recognised in the consolidated income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated income statement.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

2 Summary of significant accounting policies (continued)

(h) Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Intangible assets — goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated company/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies/jointly controlled entities is included in investments in associated companies/jointly controlled entities and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(j) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill identified on acquisition (see Note 2(i)), net of any accumulated impairment losses.

The Group's share of its associated companies' post-acquisition profits or losses are recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other long-term interests that, in substance, form part of the investor's net investment in the associated company, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Summary of significant accounting policies (continued)

(k) Jointly controlled entities

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define their joint control over the economic activity of the entity.

Investment in a jointly controlled entity is accounted for using the equity method of accounting. The consolidated income statement includes the Group's share of results of a jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity and goodwill identified on acquisition (see Note 2(i)) net of any accumulated impairment losses.

(l) Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises construction costs, amortisation of land use rights, borrowing costs and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

(m) Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

(n) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised on the trade date — the date on which the Group provides money, goods or services directly to a debtor with no intention of trading the receivables.

2 Summary of significant accounting policies (continued)

(n) Trade and other receivables (continued)

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written-off are credited in the consolidated income statement.

Trade and other receivables are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(o) Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks and deposits held at call with banks.

(p) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised as an expense in the period in which they are incurred.

2 Summary of significant accounting policies (continued)

(s) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(t) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(ii) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(iii) Share-based compensation

The Group operates an equity-settled pre-IPO share option scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The subsidiaries measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, and record expense in the financial statements of the subsidiaries, with a corresponding increase recognised in equity as a contribution from the Company.

2 Summary of significant accounting policies (continued)

(u) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(v) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of properties and services in the ordinary course of the Group's activities, net of returns and discounts. Revenue is recognised as follows:

(i) Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities.

2 Summary of significant accounting policies (continued)

(v) Revenue recognition (continued)

(ii) 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 flows discounted at the 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.

(iii) Rental income

Rental income from properties letting under operating leases is recognised on a straight line basis over the lease terms.

(iv) Hotel operating income

Hotel operating income which includes rooms rental, food and leverage sales and other ancillary services is recognised when the services are rendered.

(v) Dividend income

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

(w) Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight line basis over the expected lives of the related assets.

(x) Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) The Group is the lessee other than operating lease of land use rights

Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies (continued)

(x) Leases (continued)

(ii) The Group is the lessee under operating lease of land use rights

The Group made upfront payments to obtain operating leases of land use rights on which properties will be developed. The upfront payments of the land use rights are recorded as assets and amortised over the lease periods. The amortisation during the period of construction of the properties is capitalised as the cost of properties under development and assets under construction. The amortisation during the period before the commencement and after the completion of the construction of the properties is expensed in the consolidated income statement. The unamortised upfront payments are recognised as cost of sales when the relevant properties are sold or transferred to the cost of investment properties upon completion of the relevant properties (Note 2(f)).

(y) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

(z) Insurance contracts

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is a pre-existing risk transferred from the policyholder to the insurer, and is significant only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the consolidated income statement.

The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers and financial guarantee contracts provided to its related parties as insurance contracts.

3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk including currency risk, fair value interest rate risk and cash flow interest rate risk, credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that certain receipts of proceeds from sales of properties, public share offerings and notes offerings are in other foreign currencies. The major non-RMB assets and liabilities are bank deposits and borrowings denominated in Hong Kong dollar ("HK dollar", or "HK$") and the United States dollar ("US dollar", or "US$").

The Company and all of its subsidiaries' functional currency is RMB, so the bank balances and borrowings denominated in foreign currencies are subject to retranslation at each reporting date. Fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. Given the general expectations about the strengthening of RMB, the Group has not entered into any forward exchange contracts to hedge its exposure to foreign exchange risk.

As at 31 December 2007, if RMB had strengthened/weakened by 5%, against US dollar and HK dollar with all other variables held constant, post-tax profit for the year would have been RMB335,314,000 (2006: RMB43,210,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of US dollar and HK dollar denominated bank deposits, senior notes and bank borrowings. Profit is more sensitive to movement in RMB/US dollar exchange rate in 2007 than in 2006 because of increased amount of US dollar and HK dollar denominated bank borrowings.

(ii) Cash flow and fair value interest rate risk

Except for cash deposits in the banks, the Group has no other significant interest-bearing assets, therefore the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to changes in interest rates is mainly attributable to its borrowings, especially long term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group's policy is to maintain a reasonable balance of its borrowings between fixed rate and variable rate instruments, and between borrowings denominated in RMB and foreign currencies. Given the general expectation of the increase of interest rate for RMB denominated borrowings and decrease of interest rate for US dollar and HK dollar denominated borrowings, the Group has not used any interest rate swaps to hedge its exposure to interest rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 22.

The Group analyses its interest rate exposure taking into consideration of refinancing, renewal of existing position. Based on the above consideration, the Group calculates the impact on profit and loss of a defined interest rate change.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates as the interest rates of bank deposits are not expected to change significantly.

As at 31 December 2007, if interest rates on RMB denominated borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB2,625,000 lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates. As at 31 December 2007, if interest rates on US dollar and HK dollar denominated borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB1,531,000 lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates.

(b) Credit risk

The Group has no concentrations of credit risk. The extent of the Group's credit exposure is represented by the aggregate balance of restricted cash, cash and cash equivalents, trade and other receivables.

Cash transactions are limited to high-credit-quality institutions. The table below shows the bank deposit balances of the major counterparties as at 31 December 2007.

		As at 31 December	
		2007	2006
Counterparty	**Rating (note)**	**RMB'000**	RMB'000
Bank A	A -	**1,859,804**	2,242,754
Bank B	A -	**573,721**	273,811
Bank C	A	**408,560**	298,289
Bank D	A -	**266,823**	245,125
Bank E	BBB -	**140,850**	9,739
Bank F	BBB	**124,805**	38,052
Bank G	AA -	**3,140**	2,482,339
		3,377,703	5,590,109

Note: The source of credit rating is from Standard & Poor's.

The Group has policies in place to ensure that sales of properties are made to buyers with an appropriate financial strength and appropriate percentage of down payment. Other receivables mainly comprise deposits made to government agencies for property development projects.

3 Financial risk management (continued)

(c) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operation needs and commitments in respect of property projects.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	**Between 1 and 2 years** RMB'000	**Between 2 and 5 years** RMB'000	**Over 5 years** RMB'000	**Total** RMB'000
As at 31 December 2007					
Borrowings	**1,252,451**	**707,422**	**6,420,031**	**3,256,584**	**11,636,488**
Interests payments on borrowings (note)	**735,867**	**695,102**	**1,344,406**	**477,625**	**3,253,000**
Trade and other payables	**3,802,586**	**33,382**	**11,697**	**3,262**	**3,850,927**
	5,790,904	**1,435,906**	**7,776,134**	**3,737,471**	**18,740,415**
As at 31 December 2006					
Borrowings	1,652,309	353,345	2,965,561	3,151,774	8,122,989
Interests payments on borrowings (note)	480,060	428,622	946,839	487,129	2,342,650
Trade and other payables	3,767,836	30,236	2,320	—	3,800,392
Amount due to a related company	249,850	—	—	—	249,850
	6,150,055	812,203	3,914,720	3,638,903	14,515,881

Note:

The interest on borrowings is calculated based on borrowings held as at 31 December 2007 and 2006 without taking into account of future issues. Floating-rate interest is estimated using the current interest rate as at 31 December 2007 and 2006 respectively.

3 Financial risk management (continued)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents and restricted cash. Total equity is owners' equity, as shown in the consolidated balance sheet.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain a gearing ratio of around 40% to 50%. The gearing ratios at 31 December 2007 and 2006 were as follows:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Total borrowings	**11,636,488**	8,122,989
Less: Cash and cash equivalents	**(4,596,378)**	(5,949,589)
Restricted cash for the Group's borrowings	**(288,885)**	—
Net debt	**6,751,225**	2,173,400
Total equity	**18,812,208**	11,528,369
Gearing ratio	**35.9%**	18.9%

The increase in gearing ratio was mainly due to the increase in bank borrowings to finance acquisition of land parcels.

(e) Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year approximate their fair values due to short-term maturities of these assets and liabilities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. 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 period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies among different tax jurisdictions in various cities of the PRC, and the Group has not finalised its land appreciation tax calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related tax. The Group recognised the land appreciation tax based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the current income tax and deferred income tax provisions in the period in which such tax is finalised with local tax authorities.

(c) Impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(i). The recoverable amounts of cash-generating units have been determined based on the higher of the fair value (less cost to sell) and value in use calculation of the underlying assets, mainly properties. The fair value is determined by independent valuer. These valuations and calculations require the use of estimates.

(d) Estimated fair value of investment properties

The best evidence of fair value is current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

4 Critical accounting estimates and judgements (continued)

(d) Estimated fair value of investment properties (continued)

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

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

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from 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 Group assesses the fair value of its investment properties based on valuations determined by independent professional qualified valuers.

(e) Provision for properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their net realisable value based on the realisability of these properties, taking into account costs to completion based on past experience and net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

5 Segment information

The Group is principally engaged in the property development, property investment and hotel operation. The property and hotel projects undertaken by the Group are all located in the PRC. As majority of the Group's consolidated revenue and results are attributable to the market in the PRC and most of the Group's consolidated assets are located in the PRC, no geographical segment information is presented.

(a) Revenue

Turnover of the Group consists of the following revenue recognised during the year:

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Sales of properties	**8,631,302**	6,735,820
Hotel operating income	**565,979**	146,194
Rental income from investment properties	**78,644**	31,428
	9,275,925	6,913,442

5 Segment information (continued)

(b) Segment information

Primary reporting format — business segments

Year ended 31 December 2007

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue	8,631,302	565,979	78,644	—	9,275,925
Segment results	4,034,404	(3,654)	1,586,234	45,244	5,662,228
Finance costs — net	(43,076)	(24,461)	(92,507)	(7,187)	(167,231)
Share of results of					
— Associated companies	112,870	—	—	—	112,870
— Jointly controlled entity	—	—	—	175	175
Profit/(loss) before income tax	4,104,198	(28,115)	1,493,727	38,232	5,608,042
Income tax expense					(1,434,257)
Profit for the year					4,173,785
Other segment items are as follows:					
Capital and property development expenditure	8,936,113	1,210,212	3,630,243	4,294	13,780,862
Depreciation	12,170	143,724	481	2,057	158,432
Amortisation of land use rights as expenses	3,629	28,494	—	—	32,123
Write-down of completed properties held for sale to net realisable value	24,913	—	—	—	24,913
Impairment of goodwill	23,553	—	40,149	—	63,702
Negative goodwill arising from acquisition of subsidiaries	68,585	—	454,475	—	523,060
Fair value gains on investment properties	—	—	1,155,253	—	1,155,253
Gain on partial disposal of a subsidiary	751,530	—	—	—	751,530

5 Segment information (continued)

(b) Segment information (continued)

Primary reporting format — business segments (continued)

Year ended 31 December 2007 (continued)

The segment assets and liabilities at 31 December 2007 are as follows:

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	18,719,406	6,877,120	10,948,648	1,986,054	38,531,228
Associated companies	295,142	—	—	—	295,142
Jointly controlled entity	—	—	—	2,662	2,662
	19,014,548	6,877,120	10,948,648	1,988,716	38,829,032
Deferred income tax assets					441,570
Total assets					39,270,602
Segment liabilities	5,819,837	559,413	586,786	216,426	7,182,462
Borrowings	2,031,095	1,878,690	395,000	7,331,703	11,636,488
	7,850,932	2,438,103	981,786	7,548,129	18,818,950
Deferred income tax liabilities					1,639,444
Total liabilities					20,458,394

5 Segment information (continued)

(b) Segment information (continued)

Primary reporting format — business segments (continued)

Year ended 31 December 2006

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue	6,735,820	146,194	31,428	—	6,913,442
Segment results	2,353,271	(98,094)	1,016,042	(172,194)	3,099,025
Finance income/(costs) — net	4,825	(953)	25	35,137	39,034
Share of results of					
— Associated companies	201,027	—	—	—	201,027
— Jointly controlled entity	—	—	—	(13)	(13)
Profit/(loss) before income tax	2,559,123	(99,047)	1,016,067	(137,070)	3,339,073
Income tax expense					(1,060,323)
Profit for the year					2,278,750
Other segment items are as follows:					
Capital and property development expenditure	6,951,598	789,292	1,737,430	5,477	9,483,797
Depreciation	8,814	61,595	179	1,539	72,127
Amortisation of land use rights as expenses	1,487	7,917	—	—	9,404
Impairment of goodwill	132,268	—	—	—	132,268
Fair value gains on investment properties	—	—	1,000,831	—	1,000,831

5 Segment information (continued)

(b) Segment information (continued)

Primary reporting format — business segments (continued)

Year ended 31 December 2006 (continued)

The segment assets and liabilities at 31 December 2006 are as follows:

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	12,655,792	5,247,972	4,693,359	4,663,545	27,260,668
Associated companies	311,247	—	—	—	311,247
Jointly controlled entity	—	—	—	487	487
	12,967,039	5,247,972	4,693,359	4,664,032	27,572,402
Deferred income tax assets					123,725
Total assets					27,696,127
Segment liabilities	5,594,362	380,189	769,759	83,657	6,827,967
Borrowings	1,677,652	1,462,342	—	4,982,995	8,122,989
	7,272,014	1,842,531	769,759	5,066,652	14,950,956
Deferred income tax liabilities					1,216,802
Total liabilities					16,167,758

Unallocated results mainly represent corporate expenses.

Segment assets consist primarily of property, plant and equipment, investment properties, land use rights, properties under development, completed properties held for sale, receivables and cash balances. They also include goodwill recognised arising from acquisition of subsidiaries relating to respective segments. They exclude deferred income tax assets.

Segment liabilities comprise operating liabilities. They exclude borrowings and deferred income tax liabilities.

6 Property, plant and equipment — Group

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2007	**1,844,150**	**2,520,487**	**20,364**	**27,061**	**286,653**	**4,698,715**
Acquisition of subsidiaries	**1,369**	**—**	**419**	**95**	**—**	**1,883**
Additions	**1,111,939**	**19,444**	**30,365**	**4,728**	**3,096**	**1,169,572**
Amortisation of land use rights	**50,808**	**—**	**—**	**—**	**—**	**50,808**
Disposals	**—**	**(365)**	**(1,767)**	**(1,667)**	**—**	**(3,799)**
Transfer to investment properties	**(681,018)**	**—**	**—**	**—**	**—**	**(681,018)**
Transfer upon completion	**(1,632,113)**	**1,630,216**	**—**	**—**	**1,897**	**—**
At 31 December 2007	**695,135**	**4,169,782**	**49,381**	**30,217**	**291,646**	**5,236,161**
Accumulated depreciation						
At 1 January 2007	**—**	**63,188**	**9,044**	**10,966**	**5,647**	**88,845**
Acquisition of subsidiaries	**—**	**—**	**268**	**12**	**—**	**280**
Charge for the year	**—**	**141,635**	**6,047**	**3,924**	**6,826**	**158,432**
Disposals	**—**	**(209)**	**(999)**	**(704)**	**—**	**(1,912)**
At 31 December 2007	**—**	**204,614**	**14,360**	**14,198**	**12,473**	**245,645**
Net book value						
At 31 December 2007	**695,135**	**3,965,168**	**35,021**	**16,019**	**279,173**	**4,990,516**

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2006	2,432,525	607,848	16,209	22,756	193,388	3,272,726
Additions	1,360,512	60,027	5,153	5,642	—	1,431,334
Amortisation of land use rights	24,977	—	—	—	—	24,977
Disposals	—	—	(998)	(1,337)	(27,987)	(30,322)
Transfer upon completion	(1,973,864)	1,852,612	—	—	121,252	—
At 31 December 2006	1,844,150	2,520,487	20,364	27,061	286,653	4,698,715
Accumulated depreciation						
At 1 January 2006	—	2,272	6,846	7,641	1,515	18,274
Charge for the year	—	60,916	2,867	3,687	4,657	72,127
Disposals	—	—	(669)	(362)	(525)	(1,556)
At 31 December 2006	—	63,188	9,044	10,966	5,647	88,845
Net book value						
At 31 December 2006	1,844,150	2,457,299	11,320	16,095	281,006	4,609,870

6 Property, plant and equipment — Group (continued)

Depreciation charge of RMB158,432,000 for the year ended 31 December 2007 (2006: RMB72,127,000) has been recorded in cost of sales and administrative expenses in the consolidated income statement (Note 27).

As at 31 December 2007, assets under construction and buildings of the Group with a total carrying amount of RMB3,884,379,000 (2006: RMB3,986,899,000) were pledged as collateral for certain bank borrowings of the Group (Note 22).

As at 31 December 2007, interest capitalised in assets under construction amounted to RMB16,592,000 (2006: RMB157,263,000).

The capitalisation rate of borrowings was 7.2% for the year ended 31 December 2007 (2006: 6.58%).

7 Investment properties — Group

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Opening balance	**4,000,000**	1,883,000
Additions		
— Transfer from assets under construction	**681,018**	—
— Acquisition	**—**	1,082,025
— Other additions	**15,729**	34,144
Fair value gains	**1,155,253**	1,000,831
Ending balance	**5,852,000**	4,000,000

In December 2006, the Group acquired an office building in Beijing at a total cost of RMB1,082,025,000. In May 2007, second phase of a shopping mall in Shanghai has been completed and transferred to the investment properties.

The investment properties were revalued on an open market value and existing use basis at each balance sheet date by DTZ Debenham Tie Leung Limited, an independent professional qualified valuer. The valuations were based on current prices in an active market for similar properties.

As at 31 December 2007, the Group's investment properties were held in the PRC on leases of between 10 to 50 years. Investment properties with a carrying amount of RMB5,852,000,000 (2006: RMB2,550,000,000) were pledged as collateral for the Group's borrowings (Note 22).

8 Land use rights — Group

	Year ended 31 December 2007 RMB'000	2006 RMB'000
Opening balance	**4,356,920**	3,996,532
Additions		
— Acquisition of subsidiaries (Note 38)	**2,516,000**	—
— Other additions	**8,036,774**	1,130,613
Amortisation		
— Capitalised in property, plant and equipment	**(50,808)**	(24,977)
— Capitalised in properties under development	**(80,189)**	(48,844)
— Recognised as expenses	**(32,123)**	(9,404)
Transfer to cost of sales	**(894,519)**	(682,066)
Disposals	**—**	(4,934)
Ending balance	**13,852,055**	4,356,920
Land use rights		
— relating to property, plant and equipment under non-current assets	**6,581,082**	1,349,192
— relating to properties developed for sale under current assets	**7,270,973**	3,007,728
	13,852,055	4,356,920
Outside Hong Kong, held on leases of:		
Over 50 years	**6,425,310**	2,516,668
Between 10 to 50 years	**7,426,745**	1,840,252
	13,852,055	4,356,920

Land use rights comprise cost of acquiring rights to use certain land, which are all located in the PRC, for property development over fixed periods.

As at 31 December 2007, land use rights of RMB2,780,897,000 (2006: RMB2,699,341,000) were pledged as collateral for the Group's bank borrowings (Note 22).

9 Other non-current assets — Group

As at 31 December 2007, the Group had made prepayments of RMB2,679,501,000 (2006: RMB3,013,981,000) for certain land use rights, the ownership certificates of which have not been obtained. As at 31 December 2007, RMB470,001,000 (2006: Nil) have been advanced to certain local government authorities for land resettlement and site formation. These amounts are included in other non-current assets.

10 Intangible assets — Group

Intangible assets comprise goodwill arising from acquisitions:

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Opening balance	**475,023**	607,291
Goodwill on acquisition of subsidiaries (Note 38(a))	**4,674**	—
Impairment of goodwill recognised as expenses (Note 27)	**(63,702)**	(132,268)
Ending balance	**415,995**	475,023

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to business segment. A segment level summary of the goodwill is presented below:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Property development	**285,067**	303,946
Hotel operation	**130,928**	130,928
Property investment	**—**	40,149
	415,995	475,023

The recoverable amount of a CGU is determined based on the higher of the fair value (less cost to sell) of the related properties, determined by independent professional qualified valuers, or its value-in-use estimate.

Under property development CGU, certain underlying properties were completed and sold during the year, and the attributable goodwill totalling RMB23,553,000 (2006: RMB132,268,000) cannot be substantiated and therefore is considered impaired.

Under property investment CGU, the underlying property was completed and transferred into investment properties during the year, and the relevant goodwill totalling RMB40,149,000 (2006: Nil) cannot be substantiated and therefore is considered impaired.

The goodwill impairment was included in other operating expenses in the consolidated income statement.

11 Properties under development — Group

	As at 31 December 2007 RMB'000	2006 RMB'000
Properties under development comprises:		
Construction costs and capitalised expenditures	**2,200,323**	2,312,188
Interests capitalised	**346,318**	72,323
	2,546,641	2,384,511

	Year ended 31 December 2007 RMB'000	2006 RMB'000
Interest capitalised		
Opening balance	**72,323**	120,660
Additions	**408,659**	109,532
Transfer to cost of sales	**(112,011)**	(103,440)
Transfer to completed properties held for sale	**(22,653)**	(54,429)
Ending balance	**346,318**	72,323

The properties under development are all located in the PRC.

As at 31 December 2007, properties under development of approximately RMB421,643,000 (2006: RMB1,328,094,000) were pledged as collateral for the Group's bank borrowings (Note 22).

The capitalisation rate of borrowings was 6.74% for the year ended 31 December 2007 (2006: 6.29%).

12 Completed properties held for sale — Group

All completed properties held for sale are located in the PRC on leases of between 40 to 70 years.

As at 31 December 2007, completed properties held for sale of approximately RMB253,487,000 (2006: RMB930,340,000) were pledged as collateral for the Group's bank borrowings (Note 22).

As at 31 December 2007, RMB24,913,000 (2006: Nil) of provision has been made to write down certain completed properties to their net realisable value.

13 Investment in subsidiaries — Company

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	**262,362**	223,805
Amounts due from subsidiaries	**20,038,297**	7,846,913
Amounts due to subsidiaries	**1,835,879**	—

The amounts due from/to subsidiaries are interest-free, unsecured and have no specific repayment terms.

Details of the subsidiaries of the Group as at 31 December 2007 are set out in Note 35.

14 Associated companies — Group

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Opening balance	**311,247**	150,220
Share of results		
— Profit before income tax	**237,620**	401,009
— Income tax expense (Note 30)	**(124,750)**	(199,982)
Dividend received	**(128,975)**	(40,000)
Ending balance	**295,142**	311,247

The Group's associated companies, all of which are unlisted entities established in the PRC, are as follows:

Name	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Profit RMB'000	% of interest held by the Group
2007					
Fuzhou Shimao Investment Development Co., Ltd. ("Fuzhou Project JV")	**426,635**	**253,482**	**127,628**	**25,708**	**50%**
Nanjing Shimao Real Estate Development Co., Ltd. ("Nanjing Project JV")	**1,605,178**	**1,188,047**	**1,140,181**	**200,032**	**50%**
	2,031,813	**1,441,529**	**1,267,809**	**225,740**	
2006					
Fuzhou Project JV	687,751	396,709	1,287,812	236,235	50%
Nanjing Project JV	1,420,358	1,088,906	1,093,505	165,818	50%
	2,108,109	1,485,615	2,381,317	402,053	

Details of the associated companies of the Group as at 31 December 2007 are set out in Note 35.

15 Jointly controlled entity — Group

	Year ended 31 December 2007 RMB'000	2006 RMB'000
Opening balance	**487**	500
Capital injection	**2,000**	—
Share of results		
— Profit/(loss) for the year	**175**	(13)
Ending balance	**2,662**	487

Details of the jointly controlled entity of the Group as at 31 December 2007 are set out in Note 35.

16 Trade and other receivables and prepayments

	As at 31 December 2007 RMB'000	2006 RMB'000
Group		
Trade receivables (note)	**518,105**	250,861
Deposits for resettlement costs	**198,450**	103,450
Other receivables	**235,100**	119,562
Prepayments for construction costs	**137,930**	45,226
Prepaid business tax on pre-sale proceeds	**34,494**	45,165
	1,124,079	564,264

	As at 31 December 2007 RMB'000	2006 RMB'000
Company		
Other receivables and prepayments	**63,371**	16,668

Note: Trade receivables are mainly arisen from sales of properties. Consideration in respect of properties sold are paid in accordance with the terms of the related sales and purchase agreements. The ageing analysis of trade receivables at respective balance sheet dates is as follows:

	As at 31 December 2007 RMB'000	2006 RMB'000
Within 90 days	**503,788**	250,861
Over 90 days and within 365 days	**14,317**	—
	518,105	250,861

As at 31 December 2007, the balances of trade and other receivables do not contain impaired assets.

As at 31 December 2007, the fair value of trade receivables, deposits for resettlement costs, and other receivables of the Group and the Company approximate their carrying amounts.

17 Amounts due from related companies — Group

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Common directors		
Shanghai Shimao Co., Ltd. ("Shanghai Shimao")	**281**	150
Shimao International Holdings Limited ("Shimao International")	**281**	151
Shanghai Shimao Enterprises Development Co., Ltd. ("Shimao Enterprises")	**196**	150
Shanghai Mason Club Co., Ltd. ("Shanghai Mason")	**60**	—
Associated companies		
Nanjing Project JV	**29,457**	150
Fuzhou Project JV	**282**	—
Jointly controlled entity		
Shanghai Shimao Savills Property Management Co., Ltd. ("Shimao First Pacific")	**920**	—
	31,477	601

The balances due from related companies are unsecured, interest-free and have no fixed repayment terms.

The carrying amounts of amounts due from related companies approximate their fair values.

18 Amount due from a minority interest — Group

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Shaanxi Golden Enterprises Co., Ltd.	**6,262**	—

The balance due from a minority interest is unsecured, interest-free and has no fixed repayment terms.

19 Cash and cash equivalents

	As at 31 December 2007 RMB'000	2006 RMB'000
Group		
Bank balances and cash		
— denominated in RMB	**4,283,202**	1,548,613
— denominated in US dollar	**432,539**	3,275,631
— denominated in HK dollar	**290,190**	1,198,846
Less: Restricted cash	**(409,553)**	(73,501)
	4,596,378	5,949,589

	As at 31 December 2007 RMB'000	2006 RMB'000
Company		
Bank balances and cash — unrestricted		
— denominated in US dollar	**432,539**	3,275,631
— denominated in HK dollar	**19,870**	825,155
	452,409	4,100,786

As at 31 December 2007, the Group's cash of approximately RMB120,668,000 (2006: RMB73,501,000) was restricted and deposited in certain banks as guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties and cash of RMB288,885,000 (2006: Nil) was pledged as security for bank borrowings (Note 22).

The conversion of RMB denominated balances into foreign currencies and the remittance of the foreign currencies out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The effective interest rate on bank deposits as at 31 December 2007 was 1.03% (2006: 1.04%).

20 Share capital

(a) Details of share capital of the Company are as follows:

	Note	Par value HK$	Number of shares '000	Nominal value of ordinary shares HK$'000	RMB'000
Authorised:					
At 1 January 2006	(i)	0.1	3,800	380	
Increase in share capital on 26 January 2006	(i)	0.1	2,996,200	299,620	
Increase in share capital on 30 March 2006	(i)	0.1	2,000,000	200,000	
At 31 December 2006 and 2007			5,000,000	500,000	
Issued and fully paid:					
At 1 January 2006					
— Issue of shares for the Reorganisation	(ii)	0.1	1,787,440	178,744	185,787
Issue of shares for settlement of debts	(iii)	0.1	212,560	21,256	22,093
Issue of shares to financial investors	(iv)	0.1	380,495	38,050	39,429
New issues of shares	(v)	0.1	684,393	68,439	70,212
At 31 December 2006			3,064,888	306,489	317,521
Issue of shares for placement	(vi)	0.1	218,460	21,846	21,506
Employee share option scheme — shares issued	(b)		14,444	1,444	1,355
At 31 December 2007			3,297,792	329,779	340,382

Notes:

(i) The Company was incorporated on 29 October 2004 with an authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.1 each, with 1 share issued at HK$0.1 to Gemfair, which is the holding company of the Company. Pursuant to special resolutions passed on 26 January 2006 and 30 March 2006, the authorised share capital of the Company was increased to 3,000,000,000 shares of HK$0.1 each and 5,000,000,000 shares of HK$0.1 each respectively.

(ii) Pursuant to an agreement entered into between Gemfair and the Company on 26 January 2006 for the Reorganisation as described in Note 1, the Company issued 1,787,439,612 ordinary shares, credited as fully paid up, to Gemfair, in consideration for the acquisition of the entire share capital of SPHL(BVI). The shares issued for the Reorganisation were deemed to have been issued throughout the accounting periods presented in the consolidated financial statements, using the principles of merger accounting.

20 Share capital (continued)

(a) Details of share capital of the Company are as follows: (continued)

Notes: (continued)

(iii) On 26 January 2006, two novation agreements were entered by the Company and Gemfair with Peak Castle Assets Limited ("Peak Castle") and SPHL(BVI) respectively, in which the Company agreed to assume the debts of Peak Castle and SPHL(BVI) owing to Gemfair, totalling HK$880,000,000 (equivalent to RMB914,671,000). The Company repaid the debt by issuing 212,560,387 ordinary issues to Gemfair.

(iv) Pursuant to agreements entered by the Company with third party financial investors, an aggregate of 380,494,664 ordinary shares of the Company were subscribed and fully paid by these investors at a total consideration of approximately HK$1,575,300,000 (equivalent to RMB1,632,351,000). These subscriptions were fully settled by 7 March 2006.

(v) On 5 July 2006, the Company issued 595,124,000 ordinary shares of HK$0.1 each at HK$6.25 per share in connection with the listing, and raised gross proceeds of approximately HK$3,719,525,000. In addition, on 12 July 2006, pursuant to the exercise of the over-allotment option of the listing, additional 89,268,500 ordinary shares of HK$0.1 each were issued at HK$6.25 per share and gross proceeds of HK$557,928,000 were raised.

(vi) Pursuant to a placing agreement entered by the Company, Gemfair and the placing agent, Gemfair sold an aggregate of 305,845,000 ordinary shares of the Company to third party financial investors at HK$17.88 per share. In connection with this, a subscription agreement was entered by the Company and Gemfair whereby additional 218,460,500 ordinary shares of the Company, representing about 9.29% of the then enlarged capital of the Company, were subscribed by Gemfair at HK$17.88 per share with a total consideration, net of related expenses, of approximately HK$3,856,869,000 (equivalent to RMB3,796,845,000). The placing and subscription were fully completed on 9 May 2007.

(b) Pre-IPO Share Option Scheme

Pursuant to the shareholders' resolution passed on 9 June 2006 for approval of the Pre-IPO Share Option Scheme, options for a total of 63,920,000 ordinary shares of the Company have been conditionally granted to directors and selected employees. The exercise price of HK$5.625 per share under the Pre-IPO Share Option Scheme is determined at a 10% discount to the global offering price, which was HK$6.25 per share, excluding brokerage, Securities and Futures Commission transaction levy and the Stock Exchange trading fee. Each option has 6-year exercise period from the date of grant, with 30% vested on 31 March 2007, another 30% vesting on 31 March 2008 and the remaining 40% vesting on 31 March 2009. Options are conditional on the employee completing the services up to the respective vesting dates and evaluation of performance as specified in the scheme, and become exercisable immediately after each vesting date. The Group has no legal or constructive obligation to repurchase or settle the options in cash. These options will expire on 8 June 2012.

Movements in the number of share options outstanding are as follows:

	Year ended 31 December	
	2007	2006
	'000	'000
Balance at beginning of the year	**63,920**	—
Granted	**—**	63,920
Lapsed	**(5,709)**	—
Exercised	**(14,444)**	—
Balance at end of the year	**43,767**	63,920

20 Share capital (continued)

(b) Pre-IPO Share Option Scheme (continued)

Out of the 43,767,000 outstanding options (2006: 63,920,000 options), 3,567,600 options (2006: nil) were vested and exercisable. During the year ended 31 December 2007, 14,444,000 options have been exercised at exercise price of HK$5.625 per share, totalling HK$81,247,000 (equivalent to RMB79,615,000).

The fair value of the options granted determined using the binomial model was HK$92,324,000 at the grant date. The significant inputs to the model were share price of HK$6.25 at the grant date, exercise price of HK$5.625, volatility of 30.5%, expected dividend yield of 3.3%, an expected option life of 6 years and an annual risk-free interest rate of 4.7%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the past one year of the grant date of similar listed companies.

(c) Share Option Scheme

Pursuant to the shareholders' resolution passed on 9 June 2006, another share option scheme ("Share Option Scheme") was conditionally approved. Pursuant to the terms of the Share Option Scheme, the Company may grant options at its discretion, to any eligible person (including directors, employees, officers of any member of the Group, advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture partners and service providers of any members of the Group). The total number of shares which may be issued upon exercise of all options (the "Share Option") granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company must not exceed 30% of the Company's shares in issue from time to time.

No options may be granted under the Share Option Scheme after 10 years since the adoption. The vesting periods, exercise periods and vesting conditions may be specified by the Company at the time of the grant, and the options expire no later than 10 years from the relevant date of grant. The exercise price of the option under the Share Option Scheme shall be no less than the higher of (i) the closing price of the Company's shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; (iii) the nominal value of a share of the Company on the date of grant.

No option has been granted under the Share Option Scheme since its adoption.

21 Reserves

Group

	Merger reserve RMB'000 (note (a))	Share premium RMB'000	Share based compensation reserve RMB'000 (note (b))	Statutory reserve fund RMB'000 (note (c))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2007	(185,787)	6,569,648	38,019	—	4,788,968	11,210,848
Profit for the year attributable to the equity holders of the Company	—	—	—	—	4,091,782	4,091,782
Issue of shares for placement (Note 20(a)(vi))	—	3,775,339	—	—	—	3,775,339
Employee share option scheme						
— value of employee services	—	—	38,557	—	—	38,557
— proceeds from shares issued	—	78,260	—	—	—	78,260
Profit appropriations	—	—	—	143,620	(143,620)	—
Dividends	—	—	—	—	(1,086,984)	(1,086,984)
Balance at 31 December 2007	(185,787)	10,423,247	76,576	143,620	7,650,146	18,107,802
Representing:						
Proposed final dividend					494,088	494,088
Others					7,156,058	17,613,714
					7,650,146	18,107,802

21 Reserves (continued)

Group

	Merger reserve RMB'000 (note (a))	Share premium RMB'000	Share based compensation reserve RMB'000 (note (b))	Statutory reserve fund RMB'000 (note (c))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2006						
— Issue of shares for the Reorganisation (Note 20(a)(ii))	(185,787)	—	—	—	—	(185,787)
— Others	—	—	—	—	2,510,218	2,510,218
	(185,787)	—	—	—	2,510,218	2,324,431
Profit for the year attributable to the equity holders of the Company	—	—	—	—	2,278,750	2,278,750
Issue of shares for settlement of debts (Note 20(a)(iii))	—	892,578	—	—	—	892,578
Issue of shares to financial investors (Note 20(a)(iv))	—	1,592,922	—	—	—	1,592,922
Issue of shares in connection with the listing (Note 20(a)(v))	—	4,318,027	—	—	—	4,318,027
Share issuing expenses	—	(233,879)	—	—	—	(233,879)
Employee share option scheme — value of employee services	—	—	38,019	—	—	38,019
Balance at 31 December 2006	(185,787)	6,569,648	38,019	—	4,788,968	11,210,848
Representing:						
2006 final dividend proposed					615,859	615,859
Others					4,173,109	10,594,989
					4,788,968	11,210,848

21 Reserves (continued)

Company

	Share premium RMB'000	Share based compensation reserve RMB'000 (note (b))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2007	6,569,648	38,019	637,534	7,245,201
Profit for the year attributable to the equity holders of the Company	—	—	1,660,043	1,660,043
Issue of shares for placement (Note 20(a)(vi))	3,775,339	—	—	3,775,339
Employee share option scheme				
— value of employee services	—	38,557	—	38,557
— proceeds from shares issued	78,260	—	—	78,260
Dividends	—	—	(1,086,984)	(1,086,984)
Balance at 31 December 2007	10,423,247	76,576	1,210,593	11,710,416
Representing:				
Proposed final dividend			494,088	494,088
Others			716,505	11,216,328
			1,210,593	11,710,416

21 Reserves (continued)

Company

	Share premium RMB'000	Share based compensation reserve RMB'000 (note (b))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2006	—	—	(5)	(5)
Profit for the year attributable to the equity holders of the Company	—	—	637,539	637,539
Issue of shares for settlement of debts (Note 20(iii))	892,578	—	—	892,578
Issue of shares to financial investors (Note 20(iv))	1,592,922	—	—	1,592,922
Issue of shares in connection with the listing (Note 20 (v))	4,318,027	—	—	4,318,027
Share issuing expenses	(233,879)	—	—	(233,879)
Employee share option scheme — value of employee services	—	38,019	—	38,019
Balance at 31 December 2006	6,569,648	38,019	637,534	7,245,201
Representing:				
Proposed final dividend			615,859	615,859
Others			21,675	6,629,342
			637,534	7,245,201

Notes:

(a) Merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiary purchased pursuant to the Reorganisation and the nominal value of the shares of the Company issued in exchange as set out in Note 1.

(b) Share based compensation reserve represents value of employee services in respect of share options granted under the Pre-IPO Share Option Scheme (Note 20(b)).

(c) According to the Articles and Association of the respective subsidiaries established in the PRC, which are foreign investment enterprises, the subsidiaries shall set aside certain percentage of their net income after offsetting accumulated losses from prior years as reported in their statutory accounts for the reserve fund, enterprise expansion fund and staff bonus and welfare fund. The reserve fund and enterprise expansion fund form part of the shareholders' funds. The staff bonus and welfare fund are accounted for as liabilities. Certain subsidiaries have made appropriation to such funds during the year (2006: Nil).

(d) The distributable reserve of the Company as at 31 December 2007 amounted to RMB11,710,416,000 (2006: RMB7,245,201,000).

22 Borrowings

	As at 31 December 2007 RMB'000	2006 RMB'000
Group		
Borrowings included in non-current liabilities		
Bank borrowings — secured	**6,169,708**	2,884,994
Bank borrowings — unsecured	**400,000**	170,000
Senior notes — secured	**4,283,410**	4,572,995
	10,853,118	7,627,989
Less: Amounts due within one year	**(469,081)**	(1,157,309)
	10,384,037	6,470,680
Borrowings included in current liabilities		
Bank borrowings — secured	**489,270**	185,000
Bank borrowings — unsecured	**294,100**	310,000
Current portion of long-term borrowings	**469,081**	1,157,309
	1,252,451	1,652,309

	As at 31 December 2007 RMB'000	2006 RMB'000
Company		
Borrowings included in non-current liabilities		
Senior notes — secured	**4,283,410**	4,572,995
Bank borrowings — secured	**2,364,193**	—
	6,647,603	4,572,995
Borrowings included in current liabilities		
Bank borrowings — unsecured	**234,100**	—

As at 31 December 2007, the Group's total secured bank borrowings of RMB4,294,785,000 (2006: RMB3,069,994,000) were secured by its assets under construction and buildings (Note 6), investment properties (Note 7), land use rights (Note 8), properties under development (Note 11), completed properties held for sale (Note 12) and restricted cash (Note 19).

22 Borrowings (continued)

On 29 November 2006, the Company issued a total of US$600,000,000 senior notes, including US$250,000,000 at a floating rate of interest due 1 December 2011 and US$350,000,000 at a fixed rate of interest due 1 December 2016. The Company may at its option redeem the notes, in whole or in part, by certain dates based on the terms of the notes. The notes are senior obligations guaranteed by certain subsidiaries other than those organised under the laws of the PRC ("Subsidiary Guarantors"), and secured by the shares of these Subsidiary Guarantors.

On 13 August 2007, the Group entered into a bank facility agreement with a syndicate of 20 international and local banks. Pursuant to the agreement, the Group obtained a 3-year extendible syndicated loan facility amounting to US$328,000,000 at a floating rate of interest due on 13 August 2010.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity whichever is the earlier date is as follows:

	6 months or less RMB'000	6–12 months RMB'000	1–5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
Borrowings included in non-current liabilities:					
At 31 December 2007	6,412,481	1,472,900	—	2,498,656	10,384,037
At 31 December 2006	2,391,400	1,411,700	—	2,667,580	6,470,680
Borrowings included in current liabilities:					
At 31 December 2007	1,123,651	128,800	—	—	1,252,451
At 31 December 2006	1,174,009	478,300	—	—	1,652,309
Company					
Borrowings included in non-current liabilities:					
At 31 December 2007	4,148,947	—	—	2,498,656	6,647,603
At 31 December 2006	1,905,415	—	—	2,667,580	4,572,995
Borrowings included in current liabilities:					
At 31 December 2007	234,100	—	—	—	234,100
At 31 December 2006	—	—	—	—	—

22 Borrowings (continued)

The maturity of the borrowings included in non-current liabilities is as follows:

	As at 31 December 2007 RMB'000	2006 RMB'000
Group		
Bank borrowings:		
Between 1 and 2 years	**707,422**	353,345
Between 2 and 5 years	**4,635,277**	1,060,146
Over 5 years	**757,928**	484,194
Senior notes:		
Between 2 and 5 years	**1,784,754**	1,905,415
Over 5 years	**2,498,656**	2,667,580
	10,384,037	6,470,680
Company		
Bank borrowings:		
Between 2 and 5 years	**2,364,193**	—
Senior notes:		
Between 2 and 5 years	**1,784,754**	1,905,415
Over 5 years	**2,498,656**	2,667,580
	6,647,603	4,572,995

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

	As at 31 December 2007	2006
Group		
Bank borrowings — RMB	**7.33%**	6.49%
Bank borrowings — US dollar	**5.99%**	7.02%
Bank borrowings — HK dollar	**6.03%**	5.97%
Senior notes – US dollar	**7.92%**	7.93%
Company		
Bank borrowings — US dollar	**5.98%**	—
Bank borrowings — HK dollar	**6.03%**	—
Senior notes — US dollar	**7.92%**	7.93%

22 Borrowings (continued)

The carrying amounts and fair values of non-current borrowings are as follows:

	Carrying amounts RMB'000	Fair values RMB'000
Group		
At 31 December 2007	10,384,037	10,376,902
At 31 December 2006	6,470,680	6,468,714
Company		
At 31 December 2007	6,647,603	6,647,603
At 31 December 2006	4,572,995	4,572,995

The fair values are based on cash flows discounted using rates based on weighted average borrowing rates of 6.93% as at 31 December 2007 (2006: 6.81%).

The carrying amounts of short-term borrowings approximate their fair value, as the impact of discounting is not significant.

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

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Group		
RMB	**4,477,794**	3,158,000
HK dollar	**234,100**	79,646
US dollar	**6,924,594**	4,885,343
	11,636,488	8,122,989
Company		
HK dollar	**234,100**	—
US dollar	**6,647,603**	4,572,995
	6,881,703	4,572,995

23 Deferred income tax — Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes relate to the same tax authority. The net deferred income tax balances after offsetting are as follows:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Deferred income tax assets		
— to be recovered after more than 12 months	**361,823**	64,273
— to be recovered within 12 months	**79,747**	59,452
	441,570	123,725
Deferred income tax liabilities		
— to be recovered after more than 12 months	**1,610,065**	1,190,447
— to be recovered within 12 months	**29,379**	26,355
	1,639,444	1,216,802
Net deferred income tax liabilities	**1,197,874**	1,093,077

The movement on the net deferred income tax liabilities is as follows:

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Beginning of the year	**1,093,077**	891,498
Acquisition of subsidiaries (Note 38)	**306,936**	—
(Credited)/charged to the consolidated income statement (Note 30)	**(202,139)**	201,579
End of the year	**1,197,874**	1,093,077

23 Deferred income tax — Group (continued)

Movement in deferred income tax assets and liabilities for the year ended 31 December 2007, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Temporary differences on recognition of sales and related costs	Temporary differences on recognition of expenses	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	211,732	48,051	259,783
Credited to the consolidated income statement	8,780	27,217	35,997
At 31 December 2006	220,512	75,268	295,780
Credited/(charged) to the consolidated income statement	256,545	(26,436)	230,109
At 31 December 2007	477,057	48,832	525,889

Deferred income tax liabilities

	Fair value gains on investment properties	Fair value adjustments on assets and liabilities upon acquisition	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	324,800	826,481	1,151,281
Charged/(credited) to the consolidated income statement	330,274	(92,698)	237,576
At 31 December 2006	655,074	733,783	1,388,857
Acquisition of subsidiaries	—	306,936	306,936
Charged/(credited) to the consolidated income statement	49,504	(21,534)	27,970
At 31 December 2007	704,578	1,019,185	1,723,763

23 Deferred income tax — Group (continued)

Deferred income tax arose as a result of differences in timing of recognising certain revenue, costs and expenses between the tax based financial statements and the HKFRS financial statements. This constitutes temporary differences, being the differences between the carrying amounts of the assets or liabilities in the consolidated balance sheet and their tax bases in accordance with HKAS 12.

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB41,596,000 (2006: RMB24,556,000) in respect of accumulated losses amounting to RMB166,387,000 (2006: RMB139,693,000). Accumulated losses amounting to RMB30,299,000, RMB55,185,000, RMB22,758,000, RMB 51,634,000 and RMB6,511,000 as at 31 December 2007 will expire in 2010, 2011, 2012, 2013 and 2014 respectively.

On 16 March 2007, the National People's Congress approved the Enterprise Income Tax Law of the People's Republic of China (the "new EIT Law"). Further detailed interpretation rules have been issued in December 2007 and certain interpretation on tax incentive and grandfathering provisions have been issued in January and February 2008. The new EIT Law reduces the enterprise income tax rate for domestic enterprises and foreign invested enterprises from 33% to 25% with effect from 1 January 2008. The tax rate reduction will also impact the carrying value of deferred tax assets and liabilities. The Company has performed an assessment of the impact of the tax rate reduction based on the relevant deferred tax balances as at 31 December 2007 and net deferred tax liabilities of approximately RMB316,237,000 has been released and credited to the consolidated income statement for the year ended 31 December 2007.

Further interpretations may be issued by the State Council, as and when the State Council announces the additional interpretations, the Company will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

24 Trade and other payables

Group

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Trade payables (note (a))	**3,355,038**	3,502,628
Accrued expenses	**139,951**	111,685
Other taxes payable	**202,090**	112,313
Other payables (note (b))	**153,848**	73,766
	3,850,927	3,800,392

Company

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Other payables and accruals	**48,059**	52,455

24 Trade and other payables (continued)

Notes:

(a) The ageing analysis of trade payables is as follows:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Within 90 days	**3,036,524**	3,140,316
Over 90 days and within 180 days	**318,514**	362,312
	3,355,038	3,502,628

(b) Other payables comprise:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Excess proceeds received from customers	**40,332**	37,443
Deposits and advances from constructors	**20,362**	6,495
Rental deposits from tenants and hotel customers	**35,270**	563
Decoration fee collected from customers on behalf of decorators	**20,985**	—
Acquisition consideration payable	**—**	4,764
Fees collected from customers on behalf of government agencies	**7,109**	13,209
Welfare payable	**6,125**	—
Miscellaneous	**23,665**	11,292
	153,848	73,766

25 Amount due to a related company

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Group		
Associated company		
Fuzhou Project JV	**—**	249,850

The balance was non-trade in nature, unsecured, interest-free and had no fixed repayment terms. The amount of RMB249,850,000 due to Fuzhou Project JV was repaid in January 2007.

The carrying amount of amount due to a related company approximates its fair value.

26 Other gains

	Year ended 31 December 2007 RMB'000	2006 RMB'000
Gain on partial disposal of a subsidiary (note (a))	**751,530**	—
Negative goodwill arising from acquisition of subsidiaries (Note 38)	**523,060**	—
Net exchange gain	**229,996**	—
Income tax refund on reinvestment (note (b))	**85,432**	20,428
Trademark income	**1,459**	750
Government grants received	**1,000**	10,000
Gain on disposal of property, plant and equipment	**386**	26,373
Compensation from a third party for violation of contracts	**—**	10,219
Miscellaneous	**21,191**	5,855
	1,614,054	73,625

Notes:

(a) On 10 April 2007, the Group entered into a sale and purchase agreement with Jade VIII, Inc, owned by a fund managed by Morgan Stanley Real Estate, to dispose 29.99% interest in a subsidiary at a consideration of RMB1,000,000,000. The disposal resulted in a gain of approximately RMB751,530,000.

(b) According to the tax regulations of the PRC, income tax refund on reinvestment is available to foreign investors when they reinvest their profits from invested entities in the PRC to the same or other invested entities in the PRC, instead of remitting outside the PRC. The amount represented the income tax refund received by the Group for its reinvestment of profit from a PRC subsidiary into its other PRC subsidiaries.

27 Expenses by nature

Expenses included in cost of sales, selling and marketing costs, administrative expenses and other operating expenses are analysed as follows:

	Year ended 31 December 2007 RMB'000	2006 RMB'000
Staff costs — including directors' emoluments (note (a))	**341,705**	223,303
Auditors' remuneration	**3,100**	3,141
Depreciation (Note 6)	**158,432**	72,127
Amortisation of land use rights (Note 8)	**32,123**	9,404
Write-down of completed properties held for sale to net realisable value (Note 12)	**24,913**	—
Advertising, promotion and commission costs	**176,961**	193,954
Cost of properties sold	**4,527,431**	3,640,088
Business taxes and other levies on sales of properties (note (b))	**438,291**	339,975
Impairment of goodwill (Note 10)	**63,702**	132,268
Charitable donations	**44,427**	8,120
Direct outgoings arising from investment properties that generate rental income	**10,126**	9,087
Operating lease rental expenses	**36,351**	23,252
Hotel operating expenses	**338,590**	68,765
Net exchange loss	**—**	30,572
Office expenses	**72,559**	23,883
Other expenses	**114,293**	110,934
Total cost of sales, selling and marketing costs, administrative expenses and other operating expenses	**6,383,004**	4,888,873

(a) Staff costs (including directors' emoluments) comprise:

	Year ended 31 December 2007 RMB'000	2006 RMB'000
Wages and salaries	**236,359**	144,886
Pension costs — statutory pension (Note 34)	**22,462**	11,516
Employee share option scheme	**38,557**	38,019
Other allowances and benefits	**44,327**	28,882
	341,705	223,303

(b) Business tax

The PRC companies of the Group are subject to business taxes of 5% and other levies on their revenue from sales of properties.

28 Finance income and costs

	Year ended 31 December 2007 RMB'000	2006 RMB'000
Interest on bank borrowings		
— wholly repayable within five years	**326,856**	195,882
— not wholly repayable within five years	**28,549**	27,601
Interest on senior notes		
— wholly repayable within five years	**154,531**	13,164
— not wholly repayable within five years	**209,630**	20,739
	719,566	257,386
Less: interest capitalised	**(449,792)**	(212,667)
Finance costs	**269,774**	44,719
Finance income	**(102,543)**	(83,753)
Net finance costs/(income)	**167,231**	(39,034)

29 Emoluments of directors and five highest paid individuals

(a) Directors' emoluments

The remuneration of each of the directors of the Company for the year ended 31 December 2007 is set out as follows:

Name of directors	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Inducement fee RMB'000	Retirement benefit contributions RMB'000	Employee share option scheme RMB'000	Total RMB'000
Executive directors							
Mr. Hui Wing Mau	5,836	—	486	—	12	—	6,334
Mr. Hui Sai Tan, Jason	1,749	700	784	—	12	1,841	5,086
Ms. Yao Li	875	887	731	—	12	1,841	4,346
Mr. Ip Wai Shing	560	1,144	641	—	12	1,785	4,142
Mr. Tang Ping Fai	479	981	549	—	12	1,841	3,862
Independent non-executive directors							
Ms. Kan Lai Kuen, Alice	233	—	—	—	—	—	233
Mr. Lu Hong Bing	233	—	—	—	—	—	233
Mr. Gu Yunchang	233	—	—	—	—	—	233
Mr. Lam Ching Kam	233	—	—	—	—	—	233
	10,431	3,712	3,191	—	60	7,308	24,702

29 Emoluments of directors and five highest paid individuals (continued)

(a) Directors' emoluments (continued)

The remuneration of each of the directors of the Company for the year ended 31 December 2006 is set out as follows:

Name of directors	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Inducement fee RMB'000	Retirement benefit contributions RMB'000	Employee share option scheme RMB'000	Total RMB'000
Executive directors							
Mr. Hui Wing Mau	6,149	—	512	—	12	—	6,673
Mr. Hui Sai Tan, Jason	1,047	709	689	—	12	1,815	4,272
Ms. Yao Li	418	947	590	—	12	1,815	3,782
Mr. Ip Wai Shing	344	1,205	689	574	12	1,760	4,584
Mr. Tang Ping Fai	295	1,033	590	492	12	1,815	4,237
Independent non-executive directors							
Ms. Kan Lai Kuen, Alice	195	—	—	—	—	—	195
Mr. Lu Hong Bing	246	—	—	—	—	—	246
Mr. Gu Yunchang	176	—	—	—	—	—	176
Mr. Lam Ching Kam	143	—	—	—	—	—	143
	9,013	3,894	3,070	1,066	60	7,205	24,308

No directors of the Company waived or agreed to waive any remuneration for the years ended 31 December 2007 and 2006.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2007 and 2006 are all directors. The aggregate amounts of emoluments of the five highest paid individuals are set out below:

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Fees	**9,499**	8,253
Basic salaries and allowances	**3,712**	3,894
Bonuses and inducement fee	**3,191**	4,136
Retirement scheme contributions	**60**	60
Employee share option scheme	**7,308**	7,205
	23,770	23,548

29 Emoluments of directors and five highest paid individuals (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
RMB3,500,001 — RMB4,000,000	**1**	1
RMB4,000,001 — RMB4,500,000	**2**	2
RMB4,500,001 — RMB5,000,000	**—**	1
RMB5,000,001 — RMB5,500,000	**1**	—
RMB6,000,001 — RMB6,500,000	**1**	—
RMB6,500,001 — RMB7,000,000	**—**	1

(c) No emolument was paid or is payable by the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office apart from those disclosed above for the years ended 31 December 2007 and 2006.

30 Income tax expense

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Current income tax		
— PRC enterprise income tax	**882,079**	503,438
— Land appreciation tax	**754,317**	355,306
	1,636,396	858,744
Deferred income tax (Note 23)		
— PRC enterprise income tax	**(202,139)**	201,579
	1,434,257	1,060,323

30 Income tax expense (continued)

Share of income tax expense of associated companies of RMB124,750,000 (2006: RMB199,982,000) (Note 14) is included in the consolidated income statement under share of results of associated companies.

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies within the Group as follows:

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Profit before income tax	**5,608,042**	3,339,073
Less: Share of results of associated companies and a jointly controlled entity	**(113,045)**	(201,014)
Land appreciation tax	**(754,317)**	(355,306)
	4,740,680	2,782,753
Calculated at PRC enterprise income tax rate of 33%	**1,564,424**	918,308
Tax saving due to preferential rate	**(20,953)**	(273,389)
Effect of different tax rates in other countries	**(1,162)**	(2,087)
Expenses not deductible for income tax purposes (note (a))	**48,467**	91,810
Income not subject to tax (note (b))	**(184,162)**	(31,263)
Tax losses not recognised	**10,178**	1,638
Gain on partial disposal of a subsidiary not subject to tax (Note 26)	**(248,005)**	—
Negative goodwill arising from acquisition of subsidiaries not subject to tax (Note 26)	**(172,610)**	—
Impact of tax rate change on deferred income tax (Note 23)	**(316,237)**	—
PRC enterprise income tax charge	**679,940**	705,017
Land appreciation tax	**754,317**	355,306
	1,434,257	1,060,323

Notes:

(a) For the year ended 31 December 2007, expenses not deductible for income tax purposes mainly resulted from the impairment of goodwill of RMB63,702,000, employee share options of RMB38,557,000 and expenses of RMB44,610,000 incurred by the Company and its subsidiaries established in the British Virgin Islands which are not deductible for tax purposes.

For the year ended 31 December 2006, expenses not deductible for income tax purposes mainly resulted from the impairment of goodwill of RMB132,268,000, exchange loss of RMB46,099,000, employee share options of RMB38,019,000, expenses incurred by the Company and its subsidiaries established in the British Virgin Islands, and certain donation expenses which are not deductible for tax purposes.

(b) Income not subject to tax arose mainly from interest income and net exchange gains incurred by companies incorporated in Cayman and the British Virgin Islands, and income tax refund on reinvestment.

30 Income tax expense (continued)

Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group has no assessable profit in Hong Kong for the year ended 31 December 2007 (2006: Nil).

PRC enterprise income tax

PRC enterprise income tax is provided for at 33% of the profits for the PRC statutory financial reporting purpose, adjusted for those items, which are not assessable or deductible for the PRC enterprise income tax purpose. Certain subsidiaries and a jointly controlled entity established in the Shanghai Pudong New Area of the PRC are entitled to a preferential tax rate of 15% for the years ended 31 December 2007 and 2006. In addition, another two subsidiaries established in other areas enjoy preferential tax rates of 27% and 30% respectively for the years ended 31 December 2007 and 2006.

The new EIT Law has been enacted to reduce the PRC enterprise income tax rate from 33% to 25% with effect from 1 January 2008 (Note 23).

Land appreciation tax

Land appreciation tax 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 amortisation of land use rights, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership. Upon acquisition of subsidiaries which are engaged in property development, an accrual for land appreciation tax is made based on the fair value of the properties being developed by the subsidiaries for sale before arriving at the goodwill/negative goodwill on the acquisition.

31 Dividends

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Interim dividend paid of HK15 cents per ordinary share (note (a))	**480,829**	—
Proposed final dividend of HK16 cents (2006: HK20 cents) per ordinary share (note (b))	**494,088**	615,859
	974,917	615,859

Notes:

(a) An interim dividend in respect of the six months ended 30 June 2007 of HK15 cents per ordinary share, amounting to HK$494,336,000 (equivalent to RMB480,829,000) has been declared at the Company's board meeting held on 16 August 2007.

(b) At a meeting held on 21 April 2008, the directors proposed a final dividend of HK16 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008, upon approval by the shareholders at the forthcoming annual general meeting of the Company.

A final dividend for the year ended 31 December 2006 of HK20 cents per ordinary share, amounting to approximately HK$613,685,000 (equivalent to RMB606,155,000) was approved at the annual general meeting of the Company held on 26 April 2007.

32 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue, a total of 1,787,439,612 ordinary shares issued for the Reorganisation were deemed to have been issued on 1 January 2006.

	Year ended 31 December	
	2007	2006
Profit attributable to the equity holders of the Company (RMB'000)	**4,091,782**	2,278,750
Weighted average number of ordinary shares in issue (thousands)	**3,212,666**	2,664,890
Basic earnings per share (RMB)	**1.274**	0.855

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under the Pre-IPO Share Option Scheme (Note 20(b)) assuming they were exercised.

	Year ended 31 December	
	2007	2006
Profit attributable to the equity holders of the Company (RMB'000)	**4,091,782**	2,278,750
Weighted average number of ordinary shares in issue (thousands)	**3,212,666**	2,664,890
Adjustment for share options granted under the Pre-IPO Share Option Scheme (thousands)	**30,440**	14,096
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**3,243,106**	2,678,986
Diluted earnings per share (RMB)	**1.262**	0.851

33 Notes to the consolidated cash flow statement

Net cash used in operations:

	Year ended 31 December 2007 RMB'000	2006 RMB'000
Profit for the year	**4,173,785**	2,278,750
Adjustments for:		
Income tax expense	**1,434,257**	1,060,323
Interest income	**(102,543)**	(83,753)
Finance costs	**269,774**	44,719
Write-down of completed properties held for sale to net realisable value	**24,913**	—
Depreciation	**158,432**	72,127
Gain on disposal of property, plant and equipment	**(386)**	(26,373)
Share of results of associated companies	**(112,870)**	(201,027)
Share of results of a jointly controlled entity	**(175)**	13
Amortisation of land use rights	**32,123**	9,404
Fair value gains on investment properties	**(1,155,253)**	(1,000,831)
Staff costs — employee share option scheme	**38,557**	38,019
Gain on partial disposal of a subsidiary	**(751,530)**	—
Negative goodwill arising from acquisition of subsidiaries	**(523,060)**	—
Impairment of goodwill	**63,702**	132,268
Net exchange (gain)/loss	**(229,996)**	62,622
	3,319,730	2,386,261
Changes in working capital:		
Properties under development and completed properties held for sale	**(229,933)**	(294,171)
Land use rights	**(4,465,960)**	(2,974,888)
Restricted cash	**(336,052)**	(44,372)
Trade and other receivables and prepayments	**(470,104)**	(51,831)
Trade and other payables	**77,922**	400,262
Advanced proceeds received from customers	**(565,330)**	(3,067,120)
Net cash used in operations	**(2,669,727)**	(3,645,859)

34 Pensions — defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on a certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

Details of the retirement scheme contributions for the employees, which have been dealt with in the consolidated income statement of the Group for the year ended 31 December 2007, are as follows:

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Gross scheme contributions	**22,462**	11,516

35 Principal subsidiaries, associated companies and a jointly controlled entity

Particulars of the principal subsidiaries, associated companies and a jointly controlled entity of the Group as at 31 December 2007 are as follows:

Company name	Date of incorporation/ establishment	Legal status	Issued/registered capital	Effective interest held as at 31 December 2007	Principal activities
Principal subsidiaries — established and operation conducted in the PRC					
上海世茂房地產有限公司 (Shanghai Shimao Real Estate Co., Ltd.)	15 March 2000	Foreign investment enterprise	Registered capital US$75,000,000	100%	Property development
上海世茂國際廣場有限責任公司 (Shanghai Shimao International Plaza Co., Ltd.)	15 September 1994	Foreign investment enterprise	Registered capital RMB1,600,000,000	100%	Property development
上海世茂建設有限公司 (Shanghai Shimao Jianse Co., Ltd.)	16 March 2001	Foreign investment enterprise	Registered capital RMB540,000,000	100%	Investment holding
上海世茂莊園置業有限公司 (Shanghai Shimao Manor Real Estate Co., Ltd.)	19 June 2002	Foreign investment enterprise	Registered capital US$18,400,000	100%	Property development
上海世茂北外灘開發建設有限公司 (Shanghai Shimao North Bund Co., Ltd.)	17 May 2002	Foreign investment enterprise	Registered capital HK$650,000,000	100%	Property development
北京世茂投資發展有限公司 (Beijing Shimao Investment and Development Co., Ltd.)	7 June 2004	Foreign investment enterprise	Registered capital RMB755,780,000	100%	Property development

35 Principal subsidiaries, associated companies and a jointly controlled entity (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/registered capital	Effective interest held as at 31 December 2007	Principal activities
Principal subsidiaries — established and operation conducted in the PRC (continued)					
哈爾濱世茂濱江新城開發建設有限公司 (Harbin Shimao Riviera New City Development and Construction Co., Ltd.)	24 March 2004	Foreign investment enterprise	Registered capital HK$548,000,000	100%	Property development
常熟世茂房地產開發有限公司 (Changshu Shimao Real Estate Development Co., Ltd.)	24 December 2004	Foreign investment enterprise	Registered capital HK$440,000,000	100%	Property development
昆山世茂蝶湖灣開發建設有限公司 (Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd.)	10 November 2003	Foreign investment enterprise	Registered capital RMB412,410,000	100%	Property development
武漢世茂錦繡長江房地產開發有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.)	6 June 2005	Foreign investment enterprise	Registered capital US$114,269,000	70.01%	Property development
昆山世茂房地產開發有限公司 (Kunshan Shimao Real Estate Co., Ltd.)	24 December 2003	Foreign investment enterprise	Registered capital US$70,000,000	100%	Property development
嘉興世茂新城房地產開發有限公司 (Jiaxing Shimao New City Real Estate Development Co., Ltd.)	28 September 2006	Foreign investment enterprise	Registered capital US$62,800,000	100%	Property development
上海世茂新體驗置業有限公司 (Shanghai Shimao Wonderland Real Estate Co., Ltd.)	6 March 2006	Foreign investment enterprise	Registered capital US$50,000,000	100%	Property development
紹興世茂新城房地產開發有限公司 (Shaoxing Shimao New City Real Estate Development Co., Ltd)	11 July 2006	Foreign investment enterprise	Registered capital US$52,350,000	100%	Property development
紹興世茂置業有限公司 (Shaoxing Shimao Real Estate Co., Ltd)	11 July 2006	Foreign investment enterprise	Registered capital US$79,030,000	100%	Property development
蕪湖世茂房地產開發有限公司 (Wuhu Shimao Real Estate Development Co., Ltd.)	8 September 2006	Foreign investment enterprise	Registered capital US$56,500,000	100%	Property development

35 Principal subsidiaries, associated companies and a jointly controlled entity (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/registered capital	Effective interest held as at 31 December 2007	Principal activities
Principal subsidiaries — established and operation conducted in the PRC (continued)					
煙台世茂置業有限公司 (Yantai Shimao Real Estate Co., Ltd.)	6 September 2006	Foreign investment enterprise	Registered capital US$48,500,000	100%	Property development
常州世茂房地產開發有限公司 (Changzhou Shimao Real Estate Co., Ltd.)	27 November 2006	Foreign investment enterprise	Registered capital US$221,500,000	100%	Property development
瀋陽世茂新發展置業有限公司 (Shenyang Shimao New Development Co., Ltd.)	5 December 2006	Foreign investment enterprise	Registered capital US$107,100,000	100%	Property development
杭州世茂置業有限公司 (Hangzhou Shimao Real Estate Co., Ltd.)	13 December 2006	Foreign investment enterprise	Registered capital US$111,900,000	100%	Property development
徐州世茂新城房地產開發有限公司 (Xuzhou Shimao New City Real Estate Development Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital US$26,000,000	100%	Property development
徐州世茂置業有限公司 (Xuzhou Shimao Property Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital US$26,000,000	100%	Property development
徐州世茂新紀元房地產開發有限公司 (Xuzhou Shimao New Era Real Estate Development Co., Ltd.)	22 June 2007	Foreign investment enterprise	Registered capital RMB50,000,000	100%	Property development
福州世茂置業有限公司 (Fuzhou Shimao Property Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB430,000,000	100%	Property development
福州世茂新城房地產開發有限公司 (Fuzhou Shimao New City Real Estate Development Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB880,000,000	100%	Property development
蕪湖世茂新發展置業有限公司 (Wuhu Shimao New Development Property Co., Ltd.)	16 May 2007	Foreign investment enterprise	Registered capital RMB50,000,000	100%	Property development
蕪湖世茂新世紀置業有限公司 (Wuhu Shimao New Century Property Co., Ltd.)	26 September 2007	Foreign investment enterprise	Registered capital RMB35,000,000	100%	Property development

35 Principal subsidiaries, associated companies and a jointly controlled entity (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/registered capital	Effective interest held as at 31 December 2007	Principal activities
Principal subsidiaries — established and operation conducted in the PRC (continued)					
瀋陽世茂新世紀房地產開發有限公司 (Shenyang Shimao New Century Real Estate Development Co., Ltd.)	24 May 2007	Foreign investment enterprise	Registered capital HK$595,000,000	100%	Property development
瀋陽世茂新紀元置業有限公司 (Shenyang Shimao New Era Property Co., Ltd.)	24 May 2007	Foreign investment enterprise	Registered capital HK$257,000,000	100%	Property development
蘇州世茂投資發展有限公司 (Suzhou Shimao Investment & Development Co., Ltd.)	2 March 2007	Foreign investment enterprise	Registered capital US$29,900,000	100%	Property development
蘇州世茂置業有限公司 (Suzhou Shimao Property Co., Ltd.)	26 January 2007	Foreign investment enterprise	Registered capital US$178,000,000	100%	Property development
紹興世茂新紀元置業有限公司 (Shaoxing Shimao New Era Property Co., Ltd.)	13 July 2007	Foreign investment enterprise	Registered capital US$1,250,000	100%	Property development
紹興世茂新置業發展有限公司 (Shaoxing Shimao New Property Development Co., Ltd.)	13 July 2007	Foreign investment enterprise	Registered capital US$14,500,000	100%	Property development
紹興世茂新世紀置業有限公司 (Shaoxing Shimao New Century Property Co., Ltd.)	13 July 2007	Foreign investment enterprise	Registered capital US$22,430,000	100%	Property development
嘉興世茂新世紀置業有限公司 (Jiaxing Shimao New Century Property Co., Ltd.)	6 July 2007	Foreign investment enterprise	Registered capital RMB5,000,000	100%	Property development
牡丹江世茂置業有限公司 (Mudanjiang Shimao Property Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US$16,000,000	100%	Property development

35 Principal subsidiaries, associated companies and a jointly controlled entity (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/registered capital	Effective interest held as at 31 December 2007	Principal activities
Principal subsidiaries — established and operation conducted in the PRC (continued)					
牡丹江世茂新城房地產開發有限公司 (Mudanjiang Shimao New City Real Estate Development Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US$29,980,000	100%	Property development
常熟世茂新發展置業有限公司 (Changshu Shimao New Development Property Co., Ltd.)	24 August 2007	Foreign investment enterprise	Registered capital HK$260,000,000	100%	Property development
昆山世茂新發展置業有限公司 (Kunshan Shimao New Development Property Co., Ltd.)	12 September 2007	Foreign investment enterprise	Registered capital US$49,980,000	100%	Property development
成都世盈投資管理咨詢有限公司 (Chengdu Shiying Investment Management Co., Ltd.)	20 September 2007	Foreign investment enterprise	Registered capital US$29,980,000	100%	Property development
常州世茂新城房地產開發有限公司 (Changzhou Shimao New City Real Estate Development Co., Ltd.)	12 February 2007	Foreign investment enterprise	Registered capital US$29,900,000	100%	Property development
上海世源建材貿易有限公司 (Shanghai Shine Construction Product Co., Ltd.)	22 January 2007	Foreign investment enterprise	Registered capital HK$5,000,000	100%	Trading of construction materials
上海世盈投資管理有限公司 (Shanghai Shiying Investment Management Co., Ltd.)	21 August 2007	Foreign investment enterprise	Registered capital RMB50,000,000	100%	Property development
廈門信誠建築裝潢有限公司 (Xiamen Xincheng Building Decoration Co., Ltd.)	6 March 2007	Foreign investment enterprise	Registered capital RMB5,000,000	100%	Trading of construction materials
北京財富時代置業有限公司 (Beijing Fortune Times Property Co., Ltd.)	18 September 2001	Foreign investment enterprise	Registered capital RMB80,000,000	100%	Property development
牡丹江睿智營銷企劃有限公司 (Mudanjiang Ruizhi Marketing Planning Co., Ltd.)	4 December 2007	Foreign investment enterprise	RMB1,000,000	100%	Property development

35 Principal subsidiaries, associated companies and a jointly controlled entity (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/registered capital	Effective interest held as at 31 December 2007	Principal activities
Principal subsidiaries — established and operation conducted in the PRC (continued)					
咸陽世茂房地產開發有限公司 (Xianyang Shimao Real Estate Development Co., Ltd.)	29 April 2004	Foreign investment enterprise	Registered capital HK$30,000,000	60%	Property development
上海碧橙房地產有限公司 (Shanghai Bicheng Real Estate Co., Ltd.)	28 September 2003	Foreign investment enterprise	Registered capital RMB30,000,000	90%	Property development
Principal subsidiaries — incorporated and operation conducted in the British Virgin Islands					
Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of US$1	100% (note (a))	Investment holding
Advance Assets Holdings Limited	22 June 2001	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Easy Reach Group Limited	13 December 2006	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Keen View Limited	10 May 2006	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of US$1	100%	Investment holding

35 Principal subsidiaries, associated companies and a jointly controlled entity (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/registered capital	Effective interest held as at 31 December 2007	Principal activities
Principal subsidiaries — incorporated and operation conducted in the British Virgin Islands (continued)					
Peak Castle Assets Limited	2 July 2002	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Peak Gain International Limited	13 December 2006	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Precise Choice Investments Limited	18 October 2001	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Prime Master Holdings Limited	2 July 2002	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Shimao Management (Overseas) Limited	18 December 2002	Limited liability company	1 ordinary share of US$1	100%	Management services
Significant Asset Group Limited	2 July 2002	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Vicking International Ltd.	19 January 1994	Limited liability company	50,000 ordinary shares of US$1	100%	Investment holding
Wickfair Investments Limited	8 October 2004	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Year Grant Investments Limited	3 September 2001	Limited liability company	1 ordinary share of US$1	100%	Investment holding

35 Principal subsidiaries, associated companies and a jointly controlled entity (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/registered capital	Effective interest held as at 31 December 2007	Principal activities
Principal subsidiaries — incorporated and operation conducted in Hong Kong					
Brilliant Architectural and Construction Professional Consultancy Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK$1	100%	Consultancy services
Fine Tune Investments Limited	5 June 2006	Limited liability company	1 ordinary share of HK$1	100%	Holding of trademarks
Modern Professional Architectural Design Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK$1	100%	Design services
Shimao Holdings Company Limited	3 February 1994	Limited liability company	100 million ordinary shares of HK$1	100%	Investment holding
Topwise Limited	29 March 2005	Limited liability company	1 ordinary share of HK$1	100%	Management services
Associated companies — established and operation conducted in the PRC					
福建世茂房地產有限公司 (Fuzhou Project JV)	14 May 2003	Foreign investment enterprise	RMB200,000,000	50%	Property development
南京世茂房地產開發有限公司 (Nanjing Project JV)	23 July 2004	Foreign investment enterprise	RMB200,000,000	50%	Property development
Jointly controlled entity — established and operation conducted in the PRC					
上海世茂第一太平物業有限公司 (Shimao First Pacific)	16 September 2005	Foreign investment enterprise	RMB3,000,000	83% (note(b))	Property management

Note:

(a) Directly held by the Company.

(b) As the Group cannot control the board by majority votes in the company, the directors considered Shimao First Pacific a jointly controlled entity.

36 Financial guarantees

The Group had the following financial guarantees as at 31 December 2007.

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers	**2,132,064**	882,872

The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction. The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

37 Commitments

(a) Commitments for capital and property development expenditure

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Authorised but not contracted for	**—**	—
Contracted but not provided for		
— Property, plant and equipment	**268,466**	235,162
— Investment properties	**—**	23,384
— Land use rights	**5,521,734**	6,867,627
— Properties being developed by the Group for sale	**2,091,617**	1,286,482
— Advances to local government authorities for land resettlement and site formation	**3,630,000**	—
	11,511,817	8,412,655

37 Commitments (continued)

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Within one year	**25,451**	12,874
Between two to five years	**63,346**	4,742
	88,797	17,616

(c) Operating lease rentals receivable

The future aggregate minimum lease rentals receivable under non-cancellable operating leases in respect of land and buildings are as follows:

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Within one year	**14,761**	70,000
Between two to five years	**32,755**	280,000
After five years	**21,060**	904,167
	68,576	1,254,167

In 2003, the Group entered into a long-term rental agreement with a third party, Shanghai Brilliance (Group) Co., Ltd. ("Brilliance") for a period of 20 years, whereby a shopping mall is leased to Brilliance who acts as the head tenant and the Group is entitled to a minimum fixed annual rental income. On 8 February 2007, it was mutually agreed to terminate the long-term rental agreement with effect from 1 May 2007 and replaced by a management agreement with Brilliance. The operating lease rentals receivable as at 31 December 2006 included an amount of RMB1,244,947,000 from Brilliance in respect of the period after 1 May 2007 which was no longer receivable following the termination of the rental agreement with Brilliance.

38 Business combination

(a) On 15 March 2007, the Group acquired 60% interest of Xianyang Shimao Real Estate Development Co., Ltd. ("Xianyang Project" and formerly named as Shaanxi Golden Land Investment Development Co., Ltd.) by capital injection of approximately RMB17,818,000 to Xianyang Project. The acquired business contributed revenue of RMB Nil and net loss of approximately RMB6,000 to the Group for the period from 16 March 2007 to 31 December 2007. Had the acquisition occurred on 1 January 2007, the consolidated Group revenue for the year ended 31 December 2007 would still have been RMB9,275,925,000 and profit after income tax would have been RMB4,166,658,000.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration	**17,818**
Fair value of net assets acquired — shown as below	**(13,144)**
Goodwill (Note 10)	**4,674**

The assets and liabilities as of 15 March 2007 arising from the acquisition are as follows:

	Acquiree's carrying amount RMB'000
Cash and cash equivalents	**3,819**
Prepayment for land use rights	**54,233**
Trade and other receivables	**4,250**
Trade and other payables	**(40,396)**
Net assets	**21,906**
Minority interest (40%)	**(8,762)**
Fair value of net assets acquired	**13,144**
Purchase consideration by capital injection in cash	**17,818**
Cash and cash equivalents in the subsidiary acquired	**(3,819)**
Cash outflow on acquisition	**13,999**

The fair values of assets and liabilities approximate the acquiree's carrying amounts.

38 Business combination (continued)

(b) On 22 September 2007, the Group acquired 100% interest of Beijing Fortune Times Property Co., Ltd. from a third party at a total cash consideration of approximately RMB1,364,319,000. The acquired business contributed revenue of RMB Nil and net loss of approximately RMB90,000 to the Group for the period from 23 September 2007 to 31 December 2007. Had the acquisition occurred on 1 January 2007, the consolidated Group revenue for the year ended 31 December 2007 would still have been RMB9,275,925,000 and profit after income tax would have been RMB4,172,928,000.

Details of net assets acquired and negative goodwill are as follows:

	RMB'000
Purchase consideration	1,364,319
Fair value of net assets acquired — shown as below	(1,818,794)
Negative goodwill (Note 26)	(454,475)

The assets and liabilities as of 22 September 2007 arising from the acquisition are as follows:

	Fair value RMB'000	**Acquiree's carrying amount** RMB'000
Cash and cash equivalents	395	395
Land use rights (Note 8)	2,100,000	996,964
Property, plant and equipment (Note 6)	83	83
Trade and other receivables	2,431	2,431
Trade and other payables	(8,356)	(8,356)
Deferred income tax liabilities (Note 23)	(275,759)	—
Net assets	1,818,794	991,517
Fair value of net assets acquired	1,818,794	
Purchase consideration settled in cash		1,364,319
Cash and cash equivalents in subsidiary acquired		(395)
Cash outflow on acquisition		1,363,924

38 Business combination (continued)

(c) On 31 October 2007, the Group acquired 90% interest of Shanghai Bicheng Real Estate Co., Ltd., which also holds 51% of equity interest in a subsidiary, from a third party at a total cash consideration of approximately RMB40,500,000. The acquired business contributed revenue of RMB Nil and net loss of approximately RMB19,000 to the Group for the period from 1 November 2007 to 31 December 2007. Had the acquisition had occurred on 1 January 2007, the consolidated Group revenue for the year ended 31 December 2007 would still have been RMB9,275,925,000 and profit after income tax would have been RMB4,173,018,000.

Details of net assets acquired and negative goodwill are as follows:

	RMB'000
Purchase consideration	40,500
Fair value of net assets acquired — shown as below	(109,085)
Negative goodwill (Note 26)	(68,585)

The assets and liabilities as of 31 October 2007 arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	27,014	27,014
Land use rights (Note 8)	416,000	291,294
Property, plant and equipment (Note 6)	1,520	1,520
Trade and other receivables	10,034	10,034
Trade and other payables	(269,517)	(269,517)
Borrowings	(20,000)	(20,000)
Deferred income tax liabilities (Note 23)	(31,177)	—
Minority interest (49%)	(11,069)	(11,363)
Net assets	122,805	28,982
Minority interest (10%)	(13,720)	
Fair value of net assets acquired	109,085	
Purchase consideration settled in cash		40,500
Cash and cash equivalents in the subsidiary acquired		(27,014)
Cash outflow on acquisition		13,486

39 Related party transactions

(a) Other than those disclosed in Notes 17 and 25, the Group had entered into the following major related party transactions during the year ended 31 December 2007.

	Year ended 31 December 2007 RMB'000	2006 RMB'000
Continuing transactions		
Trademark fee earned from related companies (note (i))	**1,459**	750
Operating lease rental expense charged by a related company (note (ii))	**2,078**	1,206
Property management fee and reimbursement of staff costs charged by a jointly controlled entity (note (iii))	**3,860**	2,012

Notes:

(i) On 12 June 2006, the Group entered into a trademark framework agreement with certain related companies (including their subsidiaries), namely Shimao Enterprises., Shanghai Shimao, Shimao International and Mr. Hui Wing Mau, the Chairman of the Company, to use the "SHIMAO" trademarks and devices. Pursuant to the agreement, the Group agrees to grant non-exclusive licenses to these related companies at an annual royalty fee of HK$300,000 per project from 5 July 2006 to 31 December 2008.

(ii) On 12 June 2006, the Group entered into a lease agreement with a wholly-owned subsidiary of Shimao International, of which certain directors of the Company are also directors, to lease part of office premises of Shimao International in Hong Kong.

(iii) Shimao First Pacific, a jointly controlled entity of the Group, provided property management service to certain properties of the Group.

(iv) The Group had provided Shanghai Mason, with the right to operate one of its clubhouses at a fee calculated based upon certain percentage of net profit of the clubhouse when it has achieved an accumulated net profit. During the year ended 31 December 2007, the clubhouse was loss making and therefore no fee had been charged (2006: Nil).

(v) On 30 November 2007, the independent shareholders of the Company approved the injection of a number of retail and commercial properties in the PRC into Shanghai Shimao, a company listed on the Shanghai Stock Exchange, satisfied by issuance of up to 630,000,000 shares of Shanghai Shimao and assumption of payables of RMB 73,700,000 to be settled in cash and cash equivalents. Mr. Hui Wing Mau, Chairman of the Company, is also the Chairman of Shanghai Shimao.

In connection with the aforementioned transaction, the Company will also subscribe for new shares of Shimao Enterprises, currently holding approximately 37% interest in Shanghai Shimao, for not more than RMB750,000,000 (the "Subscription"). It is intended that Shimao Enterprises will become at least a 51% owned subsidiary of the Company after the Subscription. Shimao Enterprises is 93.33% owned by the nephew of Mr. Hui Wing Mau.

In connection with the aforementioned transaction, Shimao Enterprises will subscribe for up to 62,240,000 shares of Shanghai Shimao at a consideration of RMB750,000,000.

The aforementioned transaction and the Subscription are subject to approval of the state authorities.

39 Related party transactions (continued)

(b) Key management compensation

	Year ended 31 December 2007 RMB'000	2006 RMB'000
Fees	**9,499**	8,253
Emoluments		
— Salaries and other short-term employee benefits	**15,933**	16,967
— Retirement scheme contributions	**165**	164
— Employee share option scheme	**11,710**	11,546
	37,307	36,930

40 Presentation of land appreciation tax and reclassification of comparative figures

Within the comparative figures stated in the consolidated financial statements, land appreciation tax expense of RMB355,306,000 previously included in cost of sales for the year ended 31 December 2006 was reclassified as income tax expense in the consolidated income statement and provision for land appreciation tax of RMB1,343,972,000 previously included in other payables as at 31 December 2006 was reclassified as income tax payable in the consolidated balance sheet. In addition, prepaid land appreciation tax of RMB12,204,000 previously included in other receivables as at 31 December 2006 was also reclassified to prepaid income taxes.

The above reclassification are made so as to conform to current year presentation as the Company's directors are of the view that it would be more appropriate to reflect the land appreciation tax as an income tax expense in the current year and the outstanding provision as income tax payable, after a reassessment of the nature of land appreciation tax and a study of the market practices.

In addition, finance income of RMB83,753,000 for the year ended 31 December 2006 has been reclassified out of the other gains and separately disclosed in parallel with the finance costs so as to conform to current year presentation.

41 Subsequent events

(a) The Group has successfully acquired certain land use rights in Dalian and Ningbo on 15 January 2008 and 30 January 2008, at a total consideration of RMB1,650,000,000 and RMB1,310,000,000 respectively.

(b) On 26 February 2008, the Company entered into an agreement with BNP PARIBAS, the initial purchaser for the proposed issuance of senior notes up to US$300,000,000 which bears a fixed rate of interest and is due on 18 September 2008.

(c) On 11 January 2008, the Group acquired land use rights of one piece of land in Hangzhou at a consideration of RMB3,073,150,000 through public tender held by Hangzhou Municipal Bureau of Land and Resources. On the same date, China Overseas Land & Investment Ltd. ("COLI Group") acquired land use rights of another piece of land in Hangzhou at a consideration of RMB1,586,000,000. On 17 January 2008, the Group and the COLI Group entered into two subscription agreements and formed two jointly controlled entities for the purpose of the joint development of the two pieces of land.

42 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Company's board of directors on 21 April 2008.