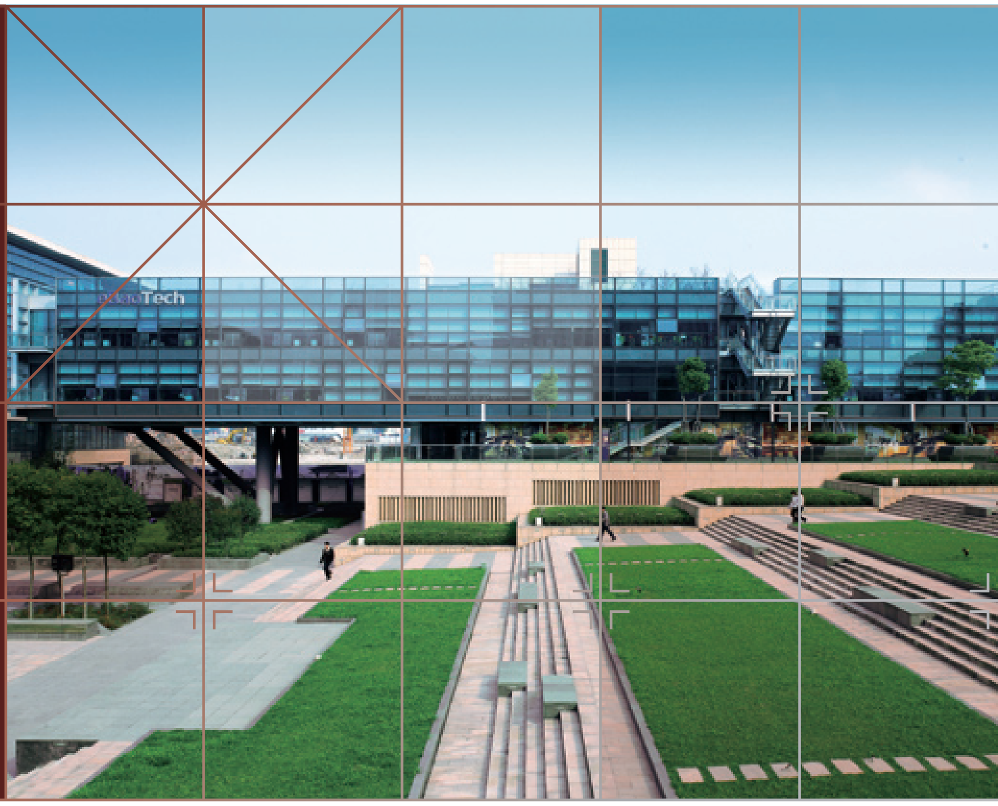
Business Review



KIC Plaza

Our unique business model and proven expertise in master planning will enable us to play a significant role in China's economic transformation and integration with the global economy.

2008 turned out to be a challenging year. For the year ended 31 December 2008, the Group achieved a turnover of RMB3,556 million, 22% below the RMB4,570 million of 2007. Of which, property sales accounted for approximately 83% (2007: 89%) of the turnover, with rental income and other related activities accounting for the remaining 17% (2007: 11%).

The Group's profit attributable to shareholders of the Company for the year amounted to RMB2,480 million, a slight increase of 1% over 2007 (2007: RMB2,462 million).

Excluding the effect of revaluation of investment properties and fair value adjustment on derivative financial instruments, the Group's underlying profit attributable to shareholders of the Company was RMB2,214 million, an increase of 7% when compared to 2007 (2007: RMB2,060 million).

PROPERTY SALES

During the year, the Group sold a total of 85,100 sq.m. of saleable GFA which gave rise to a turnover from property sales, after business tax, of RMB2,939 million (2007: 138,000 sq.m. and RMB4,085 million).

The property markets across the Chinese Mainland in 2008 experienced declines in both sales volume and selling price, brought about by the macro control measures introduced to curb property price increase over the last few years and the intensification of the global financial turmoil. Although sales in the high end residential developments slowed down in the second half of 2008, the middle end segment of the residential market continued to sell comparatively well. Going forward, we expect to see a higher proportion of revenue and profit contribution from Shanghai Rui Hong Xin Cheng, Shanghai Knowledge and Innovation Community ("Shanghai KIC"), Wuhan Tiandi and Chongqing Tiandi.

The table below summarises our property sales in 2008 by project:

Project	Location	Sales revenue^ RMB'million	Total GFA sold (sq.m.)	Average selling price (RMB/sq.m.)	Group's interest
Casa Lakeville	Shanghai Taipingqiao, Lot 113	1,960	24,200	85,300	99%
KIC Village R1, R2	Shanghai KIC, Lots 6-5, 6-6, 7-9, 8-2	345	18,000	20,200	86.8%*
The Riviera	Chongqing Tiandi, Lot B1-1/01	108	13,600	10,300**	79.4%
The Riverview	Wuhan Tiandi, Lot A7	403	29,100	14,600	75.0%
Others *(Including sales of car parks of RMB114 million)*		123	200		
Total property sales in 2008		**2,939**	**85,100**		
Total property sales in 2007		4,085	138,000		

^ *The sales revenue was stated net of business tax of 5%.*
* *Agreement has been reached to increase the interest from 70% to 86.8%, subject to completion of the capital injection.*
** *The average selling price is quoted based on the net floor area which is the common practice in Chongqing's property market.*

Casa Lakeville (Shanghai Taipingqiao project, Lot 113), the third phase of our prestigious residential development, was launched for sale in early June 2008. Out of a total of 241 units or 44,100 sq.m. in Towers 1, 2 and 10, 126 units or 24,200 sq.m. were sold as of 31 December 2008, generating a revenue of RMB1,960 million (net of business tax). The average selling price achieved was RMB85,300 per sq.m., an increase of almost 56% over that achieved by Lakeville Regency in 2007. It is our intention to launch more blocks for sale in 2009, targeting high net worth individuals and corporate customers in the Chinese Mainland.

Sales of our Shanghai Knowledge and Innovation Community ("Shanghai KIC"), KIC Village R1 continued in 2008. In November 2008, we launched 121 residential units or 14,800 sq.m. of KIC Village R2 for sale and sold 85 units or 9,800 sq.m. In aggregate, 144 units or 18,000 sq.m. of KIC Village R1 and R2 were sold in 2008 and the average selling price achieved was RMB20,200 per sq.m..

Our Chongqing project came out of incubation in 2008 with the launch of The Riviera (Chongqing Tiandi, Lot B1-1/01) the first phase of residential development. Out of a total of 784 units or 107,200 sq.m., Towers 5, 6 and 11 comprising 246 units or 30,600 sq.m. were launched in April 2008. Although sales progress was inevitably affected after the catastrophic earthquake hit Sichuan Province on 12 May 2008, our buildings and sites at Chongqing Tiandi suffered no damage and our operations were not affected. We re-marketed our residential units in the fourth quarter of 2008 and as of 31 December 2008, 102 units or 13,600 sq.m. were sold. The average selling price achieved was RMB10,300 per sq.m. in terms of net floor area (or RMB8,400 per sq.m. in terms of gross floor area). Various construction works were undertaken during the year to further enhance the environment of the entire development site. These included completing construction of major roads and preliminary works for the man-made lake. Following the improvement of the environment and various promotional activities, sales picked up remarkably in the first quarter of 2009. For the three months ended 31 March 2009, total 448 units or 52,700 sq.m. were sold with letter of intent signed. Leveraging on the favourable market response to The Riviera, we intend to launch more units in late April.

Following the successful launch of The Riverview Phase 1 (the residential development at Wuhan Tiandi project Lot A9) in 2007, another 265 units or 39,000 sq.m. in the Phase 2 (Lot A7) commenced pre-sales in early May 2008. Sales proceeded well with 200 units or 29,100 sq.m. being sold at an average selling price of RMB14,600 per sq.m., an increase of 8% over that achieved by the Phase 1 in 2007. There are 65 units remaining for sale in 2009. In January 2009, The Riverview Phase 3 (Lot A10) was launched for pre-sale. 108 units or 13,900 sq.m. out of a total 197 units or 26,100 sq.m. were sold for the three months ended 31 March 2009.

The table below shows our contract GFA - Properties that i) are available for sale and pre-sale in 2008; ii) have been sold and formal sale and purchase agreements signed in 2008; iii) Have and will be made available for sale and pre-sale in 2009; iv) have been sold in the first quarter of 2009 subject to formal sales and purchase agreements and v) are available for sale and pre-sale in 2009 and beyond are shown as follows:

Residential Property	Available for sale and pre-sale in 2008 (sq.m.)	Sold and formal sale and purchase agreements signed in 2008 (sq.m.)	Have and will be made available for sale and pre-sale in 2009 (sq.m.)	Sold in the first quarter of 2009 subject to formal sale and purchase agreements (sq.m.)	Available for sale and pre-sale in 2009 and beyond (sq.m.)
Shanghai Taipingqiao					
Casa Lakeville (Lot 113)	71,000	(24,200)	7,000	(700)	53,100
Shanghai Rui Hong Xin Cheng					
Phase 3 (Lot 8)	–	–	32,300	–	32,300
Shanghai KIC Village					
R1 (Lots 6-5, 6-6)	12,800	(8,200)	–	(1,500)	3,100
R2 (Lots 7-7, 7-9, 8-2)	30,400	(9,800)	22,700	(2,500)	40,800
Wuhan Tiandi					
The Riverview Phase 2 (Lot A7)	39,000	(29,100)	–	(4,900)	5,000
The Riverview Phase 3 (Lot A10)	–	–	26,100	(13,900)	12,200
Chongqing Tiandi					
The Riviera (Lot B1-1/01)	107,200	(13,600)	–	(52,700)	40,900
Total saleable GFA	**260,400**	**(84,900)**	**88,100**	**(76,200)**	**187,400**
Add: Others		(200)			
Total saleable GFA (sq.m.) sold and recognised as sales turnover		**(85,100)**			

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

PROPERTY INVESTMENTS

Turnover from property investment amounted to RMB593 million for the year ended 31 December 2008, an increase of 25% over that of 2007 (2007: RMB474 million). As of 31 December 2008, the Group's investment properties consist of 262,000 sq.m. of leasable GFA (31 December 2007: 253,000 sq.m.), of which approximately 45% was for office use and the 52% for retail use.

The table below summarises the composition of the leasable GFA and the occupancy rate as of 31 December 2008:

Project	Leasable GFA (sq.m.) Office	Retail	Hotel/ serviced apartment/ clubhouse	Total	Occupancy rate 2008	2007	Group's interest
Shanghai Taipingqiao,							
Shanghai Xintiandi	5,000	46,000	6,000	57,000	99%	97%	97.0%
Shanghai Corporate Avenue	76,000	7,000	–	83,000	99%	94%	99.0%
Shanghai Rui Hong Xin Cheng,							
Phase 1 Commercial	–	5,000	–	5,000	55%	N/A	75.0%
Phase 2 Commercial	–	28,000	–	28,000	99%	99%	74.3%
Shanghai KIC Village R1	8,000	7,000	–	15,000	59%	34%	86.8%*
Shanghai KIC Plaza Phase 1	29,000	23,000	–	52,000	82%	75%	86.8%*
Hangzhou Xihu Tiandi, Phase 1	–	5,000	1,000	6,000	100%	100%	100.0%
Wuhan Tiandi, Commercial	–	16,000	–	16,000	89%	57%	75.0%
Total leasable GFA, 31 December 2008	**118,000**	**137,000**	**7,000**	**262,000**			
Total leasable GFA, 31 December 2007	118,000	128,000	7,000	253,000			

* *Agreement has been reached to increase the interest from 70% to 86.8%, subject to completion of the capital injection.*

Shanghai Xintiandi and Shanghai Corporate Avenue continued to be our main rental income contributor in 2008, accounting for 84% (2007: 87%) of our total rental income. Occupancy rates at these two developments were near full occupancy with 14% and 15% increase in average rental rates over those in 2007, respectively.

In February 2008, the Group completed the acquisition of the retail podium with GFA of 5,000 sq.m., together with the clubhouse and kindergarten at Shanghai Rui Hong Xin Cheng, Phase 1 from Shui On Group for a cash consideration of RMB107 million, which was negotiated at arm's length based on the appraised value of the property by an independent valuer. Following the completion of the acquisition, the Group now controls the entire Shanghai Rui Hong Xin Cheng development which should further enhance the overall branding and value of this project. Subsequent to this acquisition, Phase 1 Commercial underwent an overhaul which is expected to be completed by mid 2009. It is expected that the occupancy rate for Phase 1 Commercial will increase upon completion of this refurbishment. Occupancy rate for Phase 2 Commercial of Shanghai Rui Hong Xin Cheng as of 31 December 2008 was 99% (31 December 2007: 99%).

As of 31 December 2008, the occupancy rate of Shanghai KIC Plaza Phase 1 and KIC Village R1 were 82% and 59%, respectively. The occupancy rates of commercial properties for KIC Plaza Phase 1 and Village R1 are expected to increase when those retail tenants move in after Metro Line 10, which pass through our KIC project, starts operation by end 2009 or early 2010.

Wuhan Tiandi Commercial comprises Lot A4-1 which was completed and opened for operation in April 2007 and Lots A4-2 and A4-3 are expected to be handed over in mid 2009. As of 31 December 2008, 89% of the 16,000 sq.m retail spaces in Lot A4-1 were leased while approximately 30% of the retail spaces in Lots A4-2 and A4-3 have signed tenancy agreements. Forty two shops have already opened for business and a further eight shops can be expected to open by mid 2009.

PROPERTY DEVELOPMENT

Shanghai Taipingqiao:
Construction of towers 1, 2, 9 and 10 of the third phase of Lakeville, Casa Lakeville (Shanghai Taipingqiao project, Lot 113) was completed during the year, while the superstructure of towers 11 and 12 has been topped out. Internal and external finishing work is now in progress. The construction of the commercial complex, with five blocks of low-rise residential buildings sitting on top, has commenced.

Preparation work for the submission of application for the commencement to relocation for the next phase of Lakeville residences at Lot 116 and the international school at Lot 115 is currently underway.

Relocation at Lots 126 and 127 is progressing well with approximately 80% and 70% of the households being relocated, respectively, as of 31 December 2008. The two lots are expected to commence construction of office and retail spaces of 158,000 sq.m.

Shanghai Rui Hong Xin Cheng:
Phase 3 of the development comprises Lots 4, 6 and 8. Lot 8 has commenced construction and is scheduled for completion in second half of 2009. We expect to launch the pre-sale of Lot 8 in 2009. Approximately 78% of the households in Lot 4 and 44% of those in Lot 6 were relocated as of 31 December 2008. Construction work of Lot 4 is also planned to commence in 2009.

Shanghai Knowledge and Innovation Community:
Construction at Lot 7-9 and Lot 8-2 of KIC Village R2 was completed during the year with a total of 246 units or 30,400 sq.m. of saleable GFA. In November 2008, 121 residential units or 14,800 sq.m. were launched which was well accepted by the market. Construction at Lot 7-7 of KIC Village R2 with a planned saleable and leasable GFA of 22,000 sq.m and 12,000 sq.m respectively and KIC Plaza Phase 2 with a planned leasable GFA of 51,000 sq.m are both progressing as planned and are expected to complete progressively by 2010.

Hangzhou Xihu Tiandi:
Relocation is in progress at Phase 2 of Xihu Tiandi with 83% of the households relocated as of 31 December 2008 and a targeted completion date in 2009. Construction will commence accordingly with a targeted completion date of mid 2011.

Chongqing Tiandi:
Construction of The Riviera at Lot B1-1/01, comprising 784 units or 107,200 sq.m. of saleable GFA, was completed in 2008. 246 units or 30,600 sq.m. were launched for sale in April 2008. Site formation of the first stage at Lot B2-1/01, which is the second phase of The Riviera at Chongqing Tiandi, was completed in 2008 with piling and foundation work in progress. The site formation works of the second and third stages are underway. For the three months ended 31 March 2009, total 448 units or 52,700 sq.m. were sold with letter of intent signed.

Construction of the retail properties and hotel at Lot B3/01 of Chongqing Tiandi, with an aggregate GFA of 55,000 sq.m., are progressing according to plan. Retail properties will be completed in the third quarter of 2009 and pre-lease has already started. The hotel is expected to be completed in the second quarter of 2010.

Wuhan Tiandi:
Construction of The Riverview at Lot A7 with a total of 265 units or 39,000 sq.m. of GFA was completed and launched for sale during the year.

The super-structure of the second phase of The Riverview, Lot A6, A8 and A10 residential development, is close to topping out. Pre-sale of Lot A10 was launched in January 2009 and is planned to be handed over to owners in April 2010. Construction for Lot A6 and Lot A8 is expected to be completed by the end of 2010.

Lot A4-2 has been finished construction and some major tenants have started their operations. The construction of Lot A4-3 will be completed in October 2009 and will start leasing operation towards the end of 2009.

Relocation for Wuhan Tiandi Site B is in progress and about 20% of land has been handed over to the Group.

DALIAN TIANDI.software hub:
In Huangnichuan North, the construction of Software Office Building with a planned GFA of 42,000 sq.m. has commenced in early March 2009 and is expected to be completed by early 2010. Commercial activities are currently underway. The construction of Engineer's Apartment with a planned GFA of 40,000 sq.m. will begin in April 2009 and is expected to be completed by 2010. The construction of commercial properties, namely IT

Tiandi, with a planned GFA of 23,000 sq.m. will commence in July 2009 and is expected to be completed by 2010. The construction of residential properties with a planned GFA of 30,000 sq.m. will begin in July 2009 and is expected to be completed by 2010.

Construction of residential properties located in Hekou Bay with a planned GFA of 53,200 sq.m. will commence in July 2009 and is expected to be completed by 2011.

Foshan Lingnan Tiandi:
Construction of Lot D with a planned GFA of 52,000 sq.m. of serviced apartments and retail properties, commenced in October 2008 and is expected to be completed in phases by 2011.

Relocation at first stage of Lot 1 with a planned GFA of 68,000 sq.m. of mixed development comprising retail, F&B, commercial and a boutique hotel, was completed and handed over to us in July 2008. The remaining portion of Lot 1's land will be handed over in April 2009. Construction will commence in mid 2009 and is expected to be completed in phases by 2012.

The land at Lot 4 and Lot 14 with a planned GFA of 56,000 sq.m. of residential properties will also be handed over in April 2009. Construction will commence in mid 2009 and is expected to be completed by 2011.

The following tables summarised the total saleable and leaseable GFA that was completed in 2008 and those that will be completed in each of the next two years based on our latest assessment.

	Saleable GFA (sq.m.) (rounded to the nearest thousand)			
	Completed	To be completed		
Property development held for sale:	2008	2009	2010	Group's interest
Shanghai Taipingqiao, Casa Lakeville (Lot 113)	55,000	16,000	7,000	99.0%
Shanghai Rui Hong Xin Cheng Phase 3 (Lot 8)	–	32,000	–	74.3%
Shanghai KIC Village R2 (Lots 7-7, 7-9, 8-2)	30,000	22,000	–	86.8%*
Chongqing Tiandi, The Riviera (Lots B1-1/01, B2-1/01)	107,000	–	47,000	79.4%
Wuhan Tiandi, The Riverview (Lots A6, A7, A8, A10)	39,000	26,000	59,000	75.0%
DALIAN TIANDI.software hub	–	–	30,000	48.0%
Total saleable GFA	**231,000**	**96,000**	**143,000**	

* *Agreement has been reached to increase the interest from 70% to 86.8%, subject to completion of the capital injection.*

	Leasable GFA (sq.m.) (rounded to the nearest thousand)							
	Completed		To be completed		To be completed			
	2008		2009		2010			
Property development held for investment:	Office	Retail	Office	Retail	Office	Retail	Hotel	Group's interest
Shanghai Taipingqiao, Casa Lakeville (Lot113)	–	–	–	–	–	29,000	–	99.0%
Shanghai Rui Hong Xin Cheng, Phase 3 (Lot 8)	–	–	–	2,000	–	–	–	74.3%
Shanghai KIC, Village R2 (Lots 7-7, 7-9, 8-2)	–	–	21,000	5,000	–	–	–	86.8%*
Shanghai KIC, Plaza Phase 2	–	–	25,000	7,000	19,000	–	–	86.8%*
Chongqing Tiandi, Lots B2-1/01, B3/01	–	–	–	42,000	–	–	17,000	79.4%
Wuhan Tiandi, Lots A4-1, A4-2, A4-3, A6	–	4,000	1,000	30,000	–	2,000	–	75.0%
Foshan Lingnan Tiandi	–	–	–	–	–	32,000	–	100.0%
DALIAN TIANDI.software hub	–	–	–	–	42,000	23,000	40,000	48.0%
Total leasable GFA	**–**	**4,000**	**47,000**	**86,000**	**61,000**	**86,000**	**57,000**	
Total saleable and leaseable GFA completed and to be completed in each of the year		**235,000**		**229,000**			**347,000**	

* *Agreement has been reached to increase the interest from 70% to 86.8%, subject to completion of the capital injection.*

On the basis that development progress is in accordance with the above table, the Group's portfolio of investment properties is expected to grow to 395,000 sq.m. of leasable GFA by the end of 2009 and 599,000 sq.m. by the end of 2010. In that event, the size of our investment property portfolio will be 1.5 times and 2.3 times that of the size as of 31 December 2008 by the end of 2009 and 2010 respectively.

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

LANDBANK

As of 31 December 2008, the Group had a landbank of 13.2 million sq.m. (of which 9.7 million sq.m. are attributable to shareholders of the Company) in eight development projects with prime locations spanning over six cities - Shanghai, Hangzhou, Chongqing, Wuhan, Foshan and Dalian. Our current landbank is estimated to be sufficient for another ten years at our current pace of development.

Other than the acquisitions listed below, no major acquisition is expected in current year unless the plot of land is located near to our existing projects. We prefer large pieces of land which will allow us to masterplan, improve the amenities and value add to the community living there.

DALIAN TIANDI.software hub

In March 2008, the DALIAN TIANDI.software hub joint venture won the bid for three more plots of land at Huangnichuan North. Accordingly, the joint venture has successfully acquired most of the land development rights at Huangnichuan North as planned in the control specific master plan, totalling approximately GFA of 1.64 million sq.m.. The Hekou Bay site in Dalian comprising approximately GFA of 1.19 million sq.m. has been acquired through public bidding in December 2008.

As of 31 December 2008, 16 plots of land of approximately 2.83 million sq.m. of GFA have been acquired via bidding with legally binding contracts signed. It is the intention of the joint venture to bid for the remaining 7 plots of land with a total GFA over 0.71 million sq.m.. Acquisition of these lands will be by way of competitive bidding and there is no assurance that the joint venture will be successful in acquiring them. The Group has a 48% interest in this joint venture development project.

Plot A of Lot 24, Yangpu District

Agreement has been reached to acquire the company that currently owns the development rights of a piece of land known as Plot A of Lot 24 in Yangpu District, Shanghai with a planned GFA of 137,400 sq.m., which is adjacent to the Group's existing Shanghai KIC project.

Yunnan

The proposed development of integrated tourism resorts pursuant to the memoranda of understanding signed between 2006 and 2008 with the municipal government of four cities of Yunnan Province is still under negotiations. It is the expectation of the Group to co-invest with strategic partners, especially those with tourism expertise, for these projects.

The location of these proposed developments are in four cities of Dali, Diqing (Shangri-La), Lijiang and Kunming and the proposed size of these projects is a total GFA of approximately 6.6 million sq.m. The above-mentioned memoranda of understanding signed with the four municipal city governments of Yunnan Province are all legally non-binding in nature. The final project sizes are subject to further discussions.

ACCELERATE GROWTH THROUGH STRATEGIC PARTNERSHIPS

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

In May 2008, the Group sold 25% interest in our Shanghai Rui Hong Xin Cheng development project to Winnington Capital Limited ("WCL") for a consideration of RMB1,125 million, giving rise to a gain on disposal of RMB862 million in 2008.

The Group further strengthened the strategic partnership by selling a 25% equity interest in Rightchina Limited, a 80.2% held indirect subsidiary that owns the development right of the super high rise office towers at our Chongqing Tiandi project ("Chongqing Super High Rise"), to WCL for a consideration of RMB1,021 million and recorded a gain on disposal of RMB819 million in 2008.

Including the above two transactions, the Group completed five transactions of strategic partnerships spanning four projects during the past three years from 2006 to 2008, bringing in a total consideration of RMB4.8 billion and an aggregate gain on partial disposal of equity interest in subsidiaries of RMB3.1 billion to the Group.

Projects	Transaction date	Equity interests disposed	Gross proceeds before minority interests (RMB'million)	Attributable profits (RMB'million)
Chongqing Tiandi	September 2006	19.8%	1,006	582
Wuhan Tiandi	June 2007	25.0%	1,245	480
Taipingqiao Lot 116	June 2007	49.0%	364	364
Rui Hong Xin Cheng	May 2008	25.0%	1,125	862
Chongqing Super High Rise	August 2008	25.0%*	1,021	819**
Total			**4,761**	**3,107**

* *Prior to the partial disposal of equity interest to a strategic partner in August 2008, the Group had 79.4% interests in Lot B11-1/02 which will be developed into super high rise. Subsequent to this transaction, the Group has 59.5% effective interest in the Chongqing Super High Rise project.*

** *Represents the gain on partial disposal of equity interests of RMB1,021 million, offset by the strategic partner's share of profits of RMB202 million.*

It remains the Group's strategy to forge strategic partnerships with developers, contractors, consultants and other investors and replicate those relationships in our other projects in the same city or elsewhere, to the extent commercially feasible, when such relationships are proving to be beneficial and working well, thereby also enhancing our operational efficiency.