KWG PROPERTY HOLDING LIMITED
合景泰富地產控股有限公司

(incorporated in the Cayman Islands with limited liability) (Stock Code : 1813)

Annual Report 2008

Contents

Corporate Information

Directors

Executive Directors
Mr. Kong Jian Min *(Chairman)*
Mr. Kong Jian Tao
Mr. Kong Jian Nan
Mr. Li Jian Ming
Mr. Tsui Kam Tim
Mr. He Wei Zhi*

Independent Non-executive Directors
Mr. Lee Ka Sze, Carmelo
Mr. Dai Feng
Mr. Tam Chun Fai

Company Secretary

Mr. Tsui Kam Tim

Compliance Advisor

Taifook Capital Limited

Authorised Representatives

Mr. Kong Jian Min
Mr. Tsui Kam Tim

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Registered Office

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

Principal Place of Business in Hong Kong

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

Principal Share Registrar

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

Hong Kong Branch Share Registrar

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

Principal Bankers

Agricultural Bank of China
Bank of China Limited
China Construction Bank Corporation
Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China Limited
Standard Chartered Bank (China) Limited
The Bank of East Asia, Limited
China Minsheng Banking Corp. Ltd

Auditors

Ernst & Young

Legal Advisors

as to Hong Kong law:
Sidley Austin

as to Cayman Islands law:
Conyers Dill & Pearman

Website

www.kwgproperty.com

Stock Code

1813 (Main Board of The Stock Exchange of Hong Kong Limited)

* Appointed as an executive director on 1 February 2009

Corporate Profile

KWG Property Holding Limited ("KWG Property" or the "Company", together with its subsidiaries, collectively the "Group") was founded in 1995 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 1813) since July 2007. KWG Property is one of the leading large-scale property developers in Guangzhou. Since its establishment, KWG Property has been focusing on the development, sales and management of quality properties targeted at mid- to high-income groups.

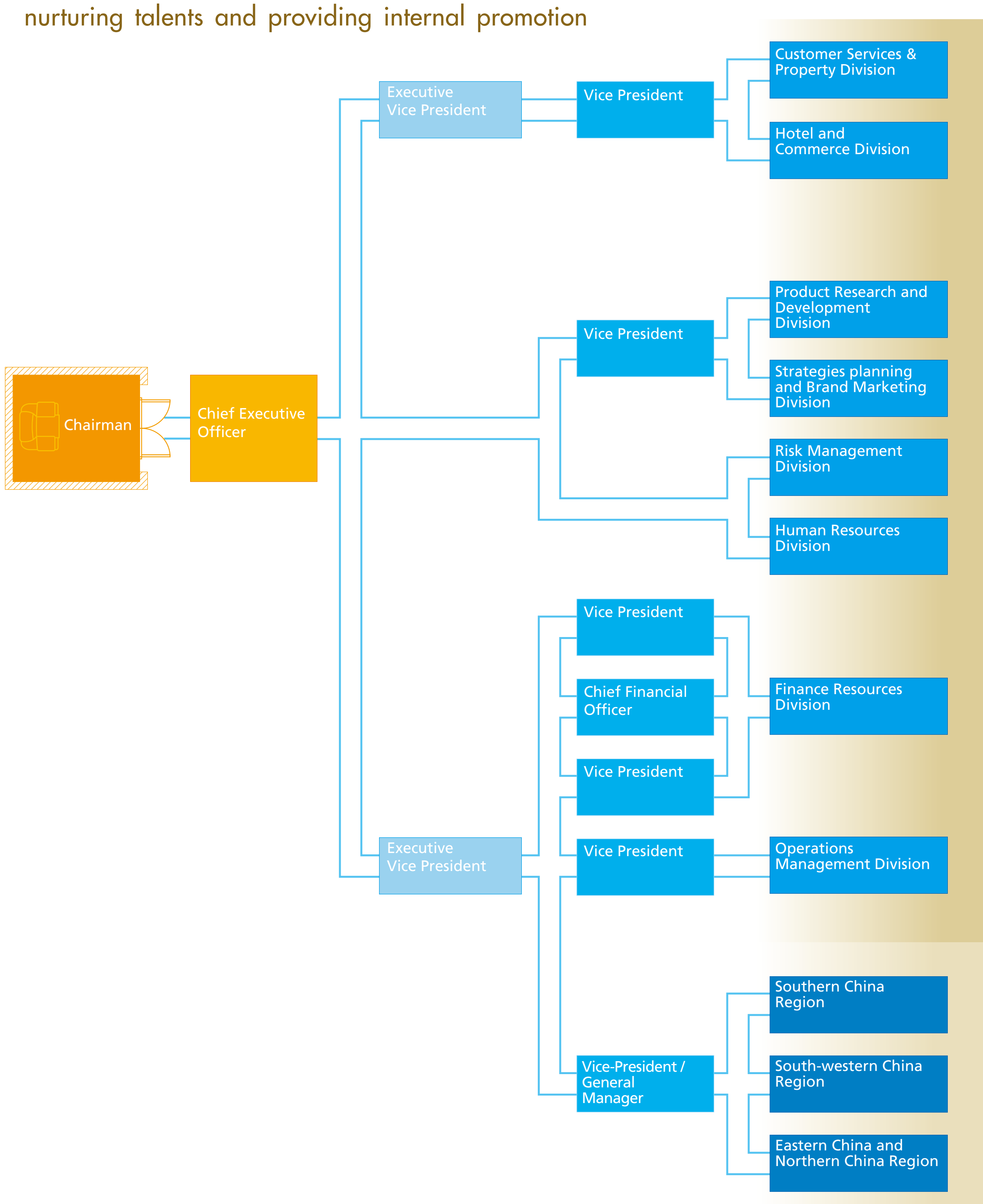
Over the past 14 years, the Group has built up an efficient property development system as well as a balanced portfolio which offers mid- to high-end residential properties, villas, town houses, serviced apartments, Grade A+ office buildings, five-star hotels and high-end shopping malls. Its business scope has also been extended from traditional property development and sales to areas of asset management and property management. A strategic development framework has been formed, with Guangzhou as its hub for South China, Suzhou for East China, Chengdu for South-west China and Beijing for the Bohai Rim, of which projects in Suzhou and Chengdu have already been launched, while the project in Beijing is expected to be opened for sale in 2009.

In order to provide a solid foundation for future growth, KWG Property has acquired sufficient land reserves for development in the next 4–5 years and will continue to prudently acquire premium land with development potential under sufficient cash flow, healthy financial position and stable operation.

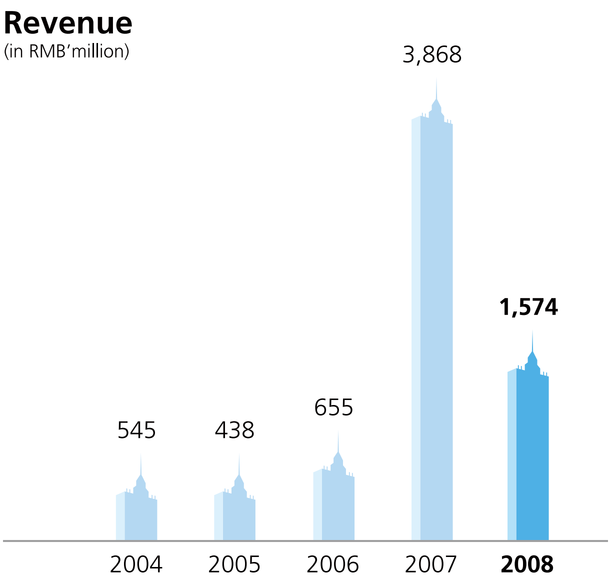
To ensure stable development through balanced revenue mix and risk diversion, the Group will seek in future to build a diversified property development portfolio with its focus on residential properties, and with commercial properties, such as offices, hotels and high-end shopping malls, held on a long-term basis accounting for an increased proportion to complement its mid- to high-end residential developments.

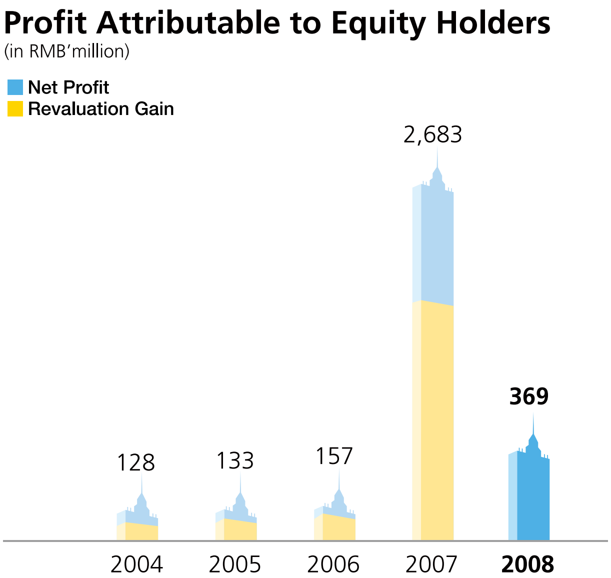
Management Structure

- emphasis on strong team collaboration and team spirit
- clearly-defined division of staff and duties
- nurturing talents and providing internal promotion



Financial Highlights





	Year Ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED RESULTS					
Revenue	**1,574,214**	3,868,136	654,632	437,748	544,962
Profit attributable to equity holders	**368,532**	2,683,055	157,156	132,995	128,403
Basic earnings per share attributable to equity holders (RMB cents)	**14**	120	9	N/A	N/A
CONSOLIDATED ASSETS AND LIABILITIES					
Total assets	**21,766,788**	18,974,533	4,406,334	2,844,626	1,911,476
Total liabilities	**12,575,577**	9,702,187	3,419,307	2,235,351	1,535,196

Major Events for 2008

January

Acquired 2 parcels of land by auction in Beijing and heralded the Group's entry into the Beijing market.

April

Entered into a cooperation agreement with Starwood Hotels and Resorts Worldwide, Inc to develop the Group's first international 5-star Westin Hotel in Suzhou.

May

Launched the "Wenchuan Earthquake Donations and Rescue Project" and donated an aggregate of RMB2.1 million to victims of the Sichuan earthquake. In the meantime, the Group also joined hands with other renowned media and developers in raising public support for the charity project.

May

KWG Property was honoured as one of the "Top Ten Mainland Property Stocks" by Economic Digest, the leading financial magazine in Hong Kong.

October

The Apex, another landmark high-end comprehensive project of the Group in the CBD of Pearl River New Town, Guangzhou City, was opened for sale. The first phase, with a total of 201 luxury residential units, were sold out completely by January 2009.

December

Signing and Foundation Laying Ceremony of Zengcheng Sheraton Hotel of Jingdong International City in Xintang, Zengcheng.

Honours and Awards

- "Top 30 Residential Construction of Guangdong on the Thirtieth Anniversary of China's Reform and Opening Up" by the Guangdong Real Estate Association
- "The Most Competitive Property Enterprise Award 2008" by the *Yangcheng Evening News*
- "Guangzhou Citizens' Top Ten Most Favourite Property Brands 2008" by the *Guangzhou Daily*
- "The Jinding Prize 2008 – Leading Blue-Chip Property Brand in China" by the *Organising Committee of the China Mainstream Property Economy Summit • Alliance of Professional Media*
- "The Most Influential Brand in China Property's New Vision 2009" by *Sohu.com* and *house.focus.cn*
- "The Annual Meeting of the New Trends in China Property – The Top Ten Most Expected Projects by the Internet Population of the New Trends in China Property" by Netease
- "The Most Influential Brand in Guangzhou 2008" by the *Xin Kuai Bao*
- "The Annual Charitable Enterprise of Chengdu Property Promotion Award 2008" of the Gingko Cup

- "Top Ten Residential Projects with Highest Investments Values in China (Pearl River Delta)" by the China Enterprise Evaluation Association
- "Guangzhou Citizens' Top Ten Most Favourite Projects 2008" by the *Guangzhou Daily*
- "The Annual Model Property Award 2008" by the *Yangcheng Evening News*
- "The China Property Golden Building Award of Harmonious Residence in China 2008 – The Annual Super Deluxe Residential Property in China " by the *Organising Committee of the China Mainstream Property Economy Summit • Alliance of Professional Media*
- "The Best-selling Luxury Home in Guangzhou 2008" by the *Xin Kuai Bao*
- "The Best Residence Award of Guangzhou Golden Property 2008" by the *Nanfang City News*
- "The 1st October Golden Unit Design 2008" by the *Nanfang City News*

- "The 2008 China Real Estate Golden Palace Award – The Best Annual Office Building in China" by the *Organising Committee of the China Mainstream Property Economy Summit • Alliance of Professional Media*

Honours and Awards

天湖峰境
SKYVILLE
全新2期

- "Scenic Villas with Highest Investment Values in China (Pearl River Delta)" by the China Enterprise Evaluation Association
- "The Outstanding Property • Best Landscape Award of 2008" by the *Yangcheng Evening News*
- "The China Property Golden Building Award of Harmonious Residence in China 2008 – The Best Travel Property Project for the Year in China" by the *Organising Committee of the China Mainstream Property Economy Summit • Alliance of Professional Media*
- "The Top Ten Classic Scenic Property Projects in New Guangzhou 2008" by the *Information Times*
- "The Best Residence Award of Guangzhou Golden Property 2008" by the *Nanfang City News*
- "The 1st October Golden Unit Design 2008" by the *Nanfang City News*

誉
THE COSMOS
峰

- "The Best Security Management Award 2008" by the *Information Times*

KING PEAK GARDEN
匯峰

- "The 1st October Golden Unit Design 2008" by the *Nanfang City News*

瑜翠园
JADE GREEN GARDEN

- "The Most Valuable Project for Purchase in China Property's New Vision 2009" by *Sohu.com* and *house.focus.cn*
- "The Best-selling Residential Units in Guangzhou 2008" by the *Xin Kuai Bao*
- "The Best Residence Award of Guangzhou Golden Property 2008" by the *Nanfang City News*
- "The 1st October Golden Unit Design 2008" by the *Nanfang City News*

合景 Emerald 誉峰

- "The Most Expected Project in Chengdu Property in 2009" by the 6th Chengdu Property Gold Lotus Cup
- "The Most Expected Property Project in Chengdu by the Internet Population 2009" by *Soufun.com*

合景 朗悦君廷 LIFE IN THE GARDEN

- "TheBest Residence Award of Guangzhou Golden Property 2008" by the *Nanfang City News*
- "The 1st October Golden Unit Design 2008" by the*Nanfang City News*

Letter to the Shareholders


Kong Jian Min
Chairman

"2008 was an extraordinary year for the development of China's property market"

Letter to the Shareholders

2008 was a year of enormous challenge for the global economy. Initially triggered by the sub-prime lending crisis in the United States in September 2007, the financial turbulence spread from developed countries to emerging markets and developing economies. While the world financial market faced an unprecedented crisis and challenge in 2008, the Chinese economy produced encouraging results in terms of GNP growth, fiscal revenue and commodity price control amid extreme volatility and testing conditions. In response to the international financial crisis, the Chinese Government swiftly steered the focus of its economic policy from "moderation" to "fast but stable development" in a timely manner in a bid to prevent prolonged economic slowdown. During the latter half of the year, swift actions were taken to implement a proactive fiscal policy and a moderately relaxed monetary policy. A series of stimulus policies and measures were launched to drive economic growth by enhancing liquidity, bolstering domestic demand and encouraging consumer spending. Five consecutive interest rate cuts in benchmark lending rates of financial institutions were announced, complemented by four rate cuts in deposit-reserve ratio requirement to encourage stronger banking support for enterprises. As a result of these efforts, China reported GDP in excess of RMB30 trillion in 2008, representing a 9% year-on-year growth and accounted for more than 20% of the world's economic growth for the year. Solid foundations have been laid for the accomplishment of an 8% GDP growth for 2009, a target announced by the government earlier this year.

China's property market underwent extensive market corrections in 2008, driven by both external and internal macro-economic conditions and sector-specific factors. According to data published by the National Statistics Bureau, nationwide residential housing transactions for each quarter in 2008 decreased by 0.3%, 10.8%, 27.2% and 25.3% (measured by gross floor area ("GFA")), or by 5.2%, 4.9%, 33.9% and 26.0% (measured by transaction amounts), respectively. The rapid adjustment and downturn in property market became a concern for both the Central Government and local authorities. The Central Government's re-focus of its macro policy of the property industry, from intensive moderation to repositioning as key pillar industry, had been strongly felt by the market towards the last quarter of 2008. Subsequently, a series of measures were announced by the Central Government to lower home purchase costs, such as interest rate cuts, stamp duty cuts and fiscal allowances for home purchases, etc. In addition, the stable and healthy development of the property market became one of the seven priority tasks of the government for 2009. In March 2009, a document titled "Certain Opinions on Facilitating Stable and Healthy Development of the Real Estate Market" was issued by the Guangdong Government, setting out measures such as the extension of payment deadlines for land premiums, the encouragement of banking support for property developers, the payment of land appreciation tax by instalments and the reduction/ exemption of home purchase taxes, etc, aiming to encourage and re-invigorate property development. Such measures bolstered the market generally by effectively restoring the confidence of retail home buyers and alleviating the cost burden of home purchasers. Data published by the National Statistics Bureau indicated that nationwide sales of commodity housing for the first two months of 2009 grew by 13.1% in transaction amounts and 1.1% in total GFA sold, year-on-year. The gradual increase in transaction volumes and stabilising prices were encouraging initial signs for a market rebound in early 2009.

2008 was also an extraordinary year for the development of KWG Property. The Group's performance in 2008 fell short of expectations, given difficult market conditions, as it reported RMB1,574.2 million in total revenue and RMB368.5 million in net profit for the year. As at the end of 2008, the Group held cash amounting to RMB1,373 million with a gearing ratio of approximately 50.3%. These figures represented a relatively healthy level of financial conditions by industry standards. Furthermore, KWG Property delivered sound results in terms of geographic expansion and enhancements of operating efficiency, as it adhered to its long-term strategy of cautious development. With an emphasis on the stability of our capital structure, we pursued regional expansion in an extremely cautious approach, seeking to uphold our competitive position in Guangzhou while expanding to other regions at a moderate pace. In terms of operations, we devoted substantial effort to enhance our corporate operating efficiency during the market consolidation by upgrading our information management system. We continued to recruit people with the right calibre and consolidated our corporate structure to meet management requirements that arose from business expansion and development of newly entered regions

"The Company strived to maintain a balance between prudent operations and stable developments amid a volatile marketplace"

following the Company's listing in 2007. As a result of these efforts, corporate development has been more comprehensive and business foundations have become stronger, in comparison to 2007.

During the reporting period, the Company endeavoured to enhance its existing competitive edge, expertise and core strengths by: (1) consolidating its leadership in Guangzhou's property development market while advancing project developments in newly-entered regions, namely Southwest China, East China and North China; (2) enhancing its operating efficiency with the completion of set-up of regional offices ; (3) maintaining a balanced property portfolio with a diverse range of developments including mid- to high-end residential units, serviced apartments, villas, 5-star hotels, office buildings and high-end shopping malls; (4) deepening its management team with the recruitment of experienced senior professionals ; (5) raising its brand influence and brand recognition in all regions; (6) strengthening its information management system; and (7) upgrading its property management services system to enhance customers' satisfaction. We are convinced that these incessant efforts in internal improvements will significantly underpin the future competitive strengths of KWG Property.

During the reporting period, the Company strived to maintain a balance between prudent operations and stable developments. Sales of mid- to high-end projects launched in Guangzhou and Suzhou were encouraging given adverse market conditions. As at 31 December 2008, the Group had a land bank of approximately 6,230,000 sq.m. GFA, which was expected to fulfill requirements for the Group's steady and sustainable development in the next 4 to 5 years. We consider this level of land bank appropriate in light of the Company's long-standing philosophy of prudent expansion, while it will also enable us to pursue prudent and stable development by maintaining a balanced business portfolio. In view of uncertainties that are expected to prevail in 2009, KWG Property will continue to adhere to a prudent land bank strategy and prepare for the future market by maintaining healthy financial conditions and stable operations. In the first quarter of 2009, we recorded satisfactory sales performance despite the fact that a number of our new projects will be launched in the second quarter of 2009. While remaining cautious, we are confident in the market prospects for 2009.

Despite uncertainties and potential instability in the global financial market in 2009, we are cautiously optimistic about the prospects of China's economic development and its property industry for the year. We believe that strategic opportunities that will shape China's future development remain abound. There has been no change to the overall scenario of fast but stable economic growth, the fundamentals and positive trends of China's property industry and the determination and policy direction of the Chinese Government to assist and encourage the property sector, which is closely associated with the day-to-day life and economic activities of the people. These major factors will sustain despite the financial crisis, while the difficulties and challenges currently prevailing are issues that we are bound to face, one way or another, as we go forward. As much as challenging the Chinese economy as never before, the financial crisis has also given rise to useful reflections for the nation's property industry. In continued pursuit of its mission of "Build Home with Heart, Create Future with Aspiration", our management

Letter to the Shareholders

will remain committed to the business philosophy of prudent expansion in a proactive and forward-looking approach. We will seek to turn the lessons learned from difficulties in 2008 into valuable assets for future development, as long-term development plans will be refined on the basis of more comprehensive considerations of market uncertainties. Against a changing environment, we work to foster our strengths; and while fostering our strengths, we anticipate and capture any opportunities arising.

Subsequent to the Group's expansion beyond Guangzhou in 2007 and the building of management systems and operating teams required by a national property developer in 2008, we believe that the Company is well-positioned to start reaping rewards for shareholders in 2009.

Last but not least, I would like to thank our shareholders, investors, business partners and customers for their ardent support of and confidence in KWG Property in the past year. My gratitude is also due to our staff who have made invaluable contributions during the year. KWG Property looks forward to sharing with shareholders the fruitful results of the Group over the years and joining them for an ever more splendid future, on the back of its unique advantages, well-defined strategies, first-class management team and sufficient land bank.

Kong Jian Min
Chairman

17 April 2009

Chief Executive Officer's Report

Dear Shareholders,

In 2008, China's property market went through a deep correction as a result of the global financial crisis, coupled with the PRC Government's implementation of macro-economic controls and policy of curbing overheated economic activities. Market corrections that started in late 2007 continued through the first six months of the year, resulting in subdued prices and transaction volumes which were particularly evident in large and mid-tier cities. Concerned by the accelerating downturn since the third quarter, as reflected in various market indicators, the Central Government and the local authorities adjusted their macro-control policies over the property industry by aiming to "facilitate stable and healthy development of the property market", a critical viewpoint change from its previous suppression towards moderation. Property markets in major cities rebounded and stabilised in transaction volumes and prices during the first quarter of 2009, in the wake of stimulus measures announced in the previous quarter. The recovery underpinned the initial success of government measures to facilitate healthy and stable development of the property market, confirming "stable development" as the policy objective for 2009 in respect of China's property market.

The combined effect of the sudden economic slump and the due correction of China's property industry discussed above had an adverse impact on the Group's results for the reporting period. Specifically, the setback was attributable to five factors: (1) sales falling short of the original target for the year under the international financial crisis and amid softened transaction volumes and prices in the domestic property market; (2) a decrease in saleable, completed and delivered GFA for the year, reflecting the overall slowdown of our projects given tightened credit policies prevailing during the first six months, coupled with slackened sales and re-scheduling of certain development projects outside of Guangzhou; (3) an apparent preference for consumers to defer purchase plans of suburban homes, affecting sales of our suburban projects, which accounted for a sizable share of projects originally scheduled for launch during the year; (4) challenges in terms of management resources, regional operations management and regional collaborations arising from our expansion to regions outside of Guangzhou in 2008; (5) slowdown in sales of projects across various regions in the latter half of the year with increasingly sidelined buyers in subdued market conditions in the third quarter as the global economic crisis continued to boil over. The Group's annual results and performance have been affected by the factors discussed above.

The Group actively responded to drastic changes in the domestic and international financial markets as well as the inherent corrections of China's property market in 2008 by adopting flexible and effective measures, based on reasonable projections on future developments, to generally upgrade itself for more stable and healthy financial and operating conditions. As a result, we were able to deliver satisfactory results against a less than favourable marketplace.

Prudence in operations with comfortable cash flow

During the reporting period, the Group had persistently maintained a secure liquidity level. Based on our view on current and future market developments, we strived to keep a balance between "vigorous developments" and "prudent operations" and ensure stability and security of our operations under general market uncertainties by preserving cash flow, identifying new revenue sources and cutting costs for the longer term. As such, there had been ongoing initiatives to improve the Group's capital management system, such as the three-tier planning control system, cost management system and capital planning management system, which contributed to further improvements in the efficiency of capital application and the intensity of financial control. As at 31 December 2008, the Group held cash amounting to RMB1,373 million with a net gearing ratio of approximately 50.3%, both of which sitting well within a comfortable and reasonable range by industry standards. At the same time, the Group enjoyed the continued support and sound working relations with banks on the back of its strong credit standing, reinforcing our operating cash flow to a certain extent. In 2009, the Group will continue to maintain strong cooperation with its existing bankers and strive to enlist the support of additional domestic banks, with a view to further enhancing our financing channels.

Adherence to the strategies of prudent land acquisition and proactive regional expansion

The Group continued to adopt a prudent land bank strategy during the reporting period and acquired a premium site in Beijing through land auction in January 2008. The site had a GFA of approximately 490,000 sq.m. and was 100% owned by the Group. Together with GFA of approximately 1,300,000 sq.m. attributable to the Group's 51% interests in another premium site in Zengcheng, Guangzhou acquired in late 2007, the Group had a land bank of approximately 6,230,000 sq.m. GFA as at 31 December 2008, with Guangdong, Jiangsu, Sichuan, Beijing and Hainan provinces accounting for 46%, 18%, 23%, 8%, and 5%, respectively. As such, a strategic development framework had been formed comprising the South China Region, the East China Region, the Southwest China Region and the Bohai Rim Region with Guangzhou, Suzhou, Chengdu and Beijing as the respective hubs. In future, the Group will further enhance its development in these regions in which it has established presence.

Leading-edge product design and creativity combines with profound insights to assure market approval

The Group competes on design and quality. Thanks to its innovative building concepts and sophisticated project development capabilities, the Group's new projects launched during the reporting period were met with positive market response and approval, despite the general slowdown of the residential property market in 2008. Sales of City Island in Suzhou and Yucui Garden in Guangzhou, both launched during the first six months, were satisfactory. Into the latter half of the year, over 200 luxury residential units of The Apex, a high-end comprehensive project in the CBD of Pearl River New Town, Guangzhou, were sold out within three months against adverse market sentiments. Meanwhile, the Group and its projects were honoured with numerous awards during the reporting period. The Group was named among the "Top 500 PRC Real Estate Developers 2008" by China Real Estate Evaluation Centre. The Apex in Guangzhou was named the "Gold Medal Luxury Home Award" and the "Gold Medal Planning Award" by the *Nanfang City News*. Sky Ville in Guangzhou was named "The Outstanding Property • Best Landscape Award of 2008" by the *Yangcheng Evening News*. The Emerald in Chengdu was named "The Most Expected Project in Chengdu Property in 2009" by the 6th Chengdu Property Gold Lotus Cup. These honours and awards underlined industry recognition for as well as consumers' approval of our products. While enhancing our ability to innovate, we have also strengthened efforts in the ongoing improvement of current products. The Group adopted measures to refine product improvement and to further lower our construction costs as a proactive response to market changes. Through structural analysis, adjustments of layout designs and enhancement of ancillary facilities etc, comprehensive improvements were made to existing projects in order to better cater market demand and the requirements of target customers.

Enhancing operating efficiency, corporate structure and risk management by improving group organisation and recruiting high-calibre staff

The Group continued to improve its organisational structure during the reporting period, with the intention of creating an organisation compatible with the scale of its current business development. A basic three-tier management structure, comprising the group, city and project levels has been formed by integrating human resources across the group and city level. Strategic coordination was conducted at the group level, while city companies were responsible for overall management and project offices for development implementation, resulting in more effective internal governance and better-defined functional responsibilities. Meanwhile, the Group also deepened its senior management team by recruiting experienced professionals during the reporting period.

Full-scale upgrade of information management systems and customer relations management system

During the reporting period, the Group completed a full-scale upgrade of its information management systems with the construction of a state-of-the-art IT-based office platform and the integration of different operating systems. On this basis, four information management systems were introduced for project operations, financial control, human resources and centralised office, respectively. With these new systems, internal information management and overall operating efficiency were generally enhanced at the Group. Moreover, with the support from our information operations platform, we have enhanced our brand service by building a system-regulated customer relations management system that incorporated the idea of "full-scale stewardship" into our one-stop customer services.

Outlook

We believe the adverse impact of the international financial turmoil will continue in 2009, while uncertainties will prevail in the domestic economy and property market. Nevertheless, the Group is optimistic about the positive development of China's property market in the long run, as the management believes that the fundamentals of the nation's property market, such as the urbanization process, structural demands and the change in the pattern of accommodation, all provide support for the long-term growth of the PRC property market. Under the macro-economic policy that aims to "facilitate stable and healthy development of the real estate market" and a relaxed monetary policy that encourages consumption, we believe that there is everything to aspire for in the longer-term prospect of the property market, and that quality products with superior performance-price ratios will continue to win market recognition, as always.

While no corporations can change the course of market movements, those who are leaders would be first to adapt to market changes with a rational mindset, on the basis of sensible projections and anticipations. On this basis, the Group is driving forward with steadfast confidence. We reported healthy financial conditions and stable corporate development at the end of 2008 despite immense difficulties encountered during the year. As we maintain a reasonable net debt position in 2009, we will follow a reasonable pace in our business expansion and continue to persist in a prudent land acquisition strategy that focuses on sites in prime urban locations that offer good value. We will accelerate the progress of existing projects where circumstances permit, with an aim to capture opportunities by leveraging our strong cash flow. We intend to maintain a reasonably balanced product portfolio and further enhance our competitive edge and brand influence in the industry. We will enhance our responsiveness to market changes and pursue sustainable development by adopting more flexible sales strategies and exercising stronger cost controls, operations and internal governance. Fully geared to embrace new opportunities, KWG Property is prepared to leverage its pursuit of exquisite housing for the benefit of prospective buyers in the market.

Appreciation

On behalf of the Board of Directors, I would like to express sincere gratitude for the unfailing support of our shareholders and dedicated services of our staff, which underpin each and every step in KWG Property's stable growth. The Board would also like to thank all shareholders and customers for the concern and support they have shown for the development of KWG Property.

Kong Jian Tao
Chief Executive Officer

17 April 2009

Management Discussion and Analysis

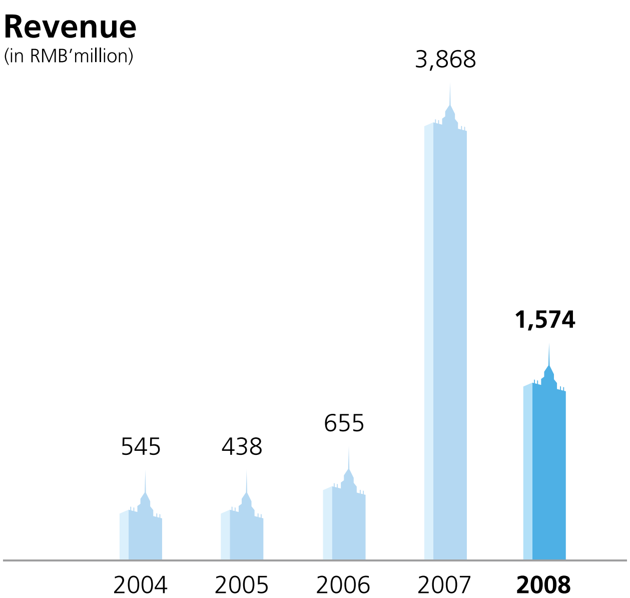
Financial Review

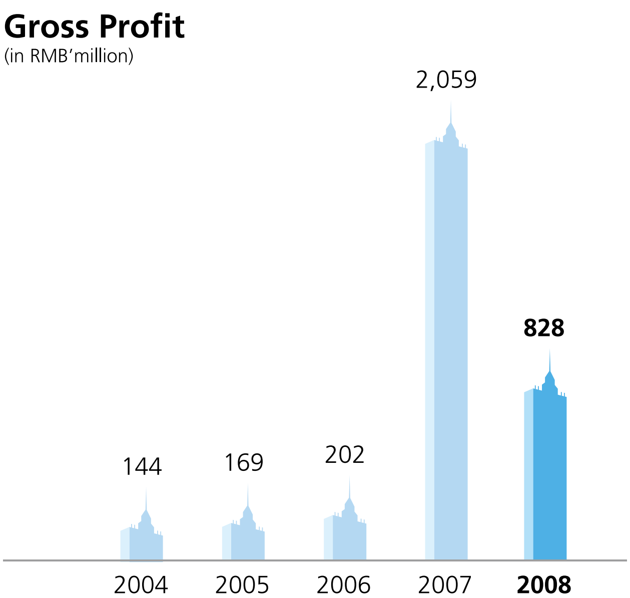
Revenue

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

The revenue amounted to approximately RMB1,574.2 million in 2008, representing a decrease of 59.3% from approximately RMB3,868.1 million in 2007, primarily due to the decrease of total gross floor area (the "GFA") delivered in sales of properties in 2008.

In 2008, the revenue generated from property development, property investment and property management services were approximately RMB1,471.2 million, RMB74.5 million and RMB28.5 million, respectively.





Property development

Revenue generated from property development decreased by 61.8% to approximately RMB1,471.2 million in 2008 from approximately RMB3,846.8 million in 2007, primarily due to a 59.8% decrease in the total GFA delivered to 133,531 sq.m. in 2008 from 332,329 sq.m. in 2007. The decrease in the total GFA delivered in 2008 was principally due to the delay in the construction schedule of two of the Group's property development projects which were originally scheduled for completion in 2008, thus rendering a decrease in the total GFA for completion and delivery. Besides, the slowdown in the PRC property market in 2008 also led to a decline in both the number of property transactions and the price, whilst also adversely affected the sales performance of certain projects of the Group. The Group adjusted the pace of development, principally to handle the sudden deterioration in the operating environment during 2008, which was driven by the global economic crisis, rapid decline in the PRC property market as a result of the Central Government's macroeconomic policy and tightened credit environment. Some of its projects in the mid-tier segment were particularly impacted by the depressed operating environment. Despite the poor market sentiment and our decrease in GFA delivered, the Group maintained a high recognised average selling price, at RMB 11,017.7 per sq.m., as compared to RMB 11,575.3 per sq.m. in 2007.

Property investment

Revenue generated from the provision of property investment increased by 542.2% to approximately RMB74.5 million in 2008 from approximately RMB11.6 million in 2007, primarily attributable to an increase in the number of properties leased in 2008 as a result of the completion and delivery of our major investment property, International Finance Place ("IFP"), in July 2007.

Provision of property management services

Revenue generated from the provision of property management services increased by 193.8% to approximately RMB28.5 million in 2008 from approximately RMB9.7 million in 2007, primarily attributable to an increase in the number of properties under management.

Cost of sales

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

Cost of sales decreased by 58.7% to approximately RMB746.4 million in 2008 from approximately RMB1,809.2 million in 2007, primarily due to an overall decrease in cost of properties sold following the decrease in GFA delivered.

Land cost per sq.m. decreased from RMB1,327.8 in 2007 to RMB1,117.6 in 2008, principally due to the delivery of a portion of IFP and our luxury residential project, The Cosmos in 2007, where land cost is relatively higher. Both of them were built in Pearl River New Town, a prime location of Guangzhou City.

Construction cost per sq.m. increased from RMB3,790.5 in 2007 to RMB4,152.8 in 2008, principally due to an overall increase in material costs.

Management Discussion and Analysis

Gross profit

Gross profit of the Group decreased by 59.8% to approximately RMB827.8 million in 2008 from approximately RMB2,058.9 million in 2007. The decrease in gross profit was in line with the decrease in the total revenue in 2008. Despite the decrease in GFA delivered, the Group maintained its gross profit margin at 52.6% in 2008 (2007: 53.2%).

Other income and gains

Other income and gains decreased by 27.1% to approximately RMB150.6 million in 2008 from approximately RMB206.5 million in 2007, mainly comprising the gains on the disposal of investment properties of approximately RMB44.8 million, interest income of approximately RMB23.5 million and net exchange gains of approximately RMB73.7 million.

Gains on the disposal of investment properties increased by 224.7% or approximately RMB31.0 million in 2008, primarily due to the sale of retail shop units and carpark spaces at its existing projects, attributable to increase in GFA sold in 2008 as compared with 2007.

Selling and marketing costs

Selling and marketing costs of the Group increased by 36.9% to approximately RMB89.5 million in 2008 from approximately RMB65.4 million in 2007, which is primarily due to an increase of 43.1% in advertising expenses to approximately RMB64.1 million in 2008 from approximately RMB44.8 million in 2007, which was largely attributable to increased advertising for our new projects, such as City Island in Suzhou, Waterfront Mansion in Conghua, Sky Ville Phase II and The Apex in 2008. However, selling and marketing personnel salaries and benefits for 2008 decreased to approximately RMB10.0 million from approximately RMB14.2 million in 2007, primarily affected by the reduction in sales commission for sales of property during 2008.

Administrative expenses

Administrative expenses of the Group increased by 15.4% to approximately RMB170.9 million in 2008 from approximately RMB148.1 million in 2007, primarily attributable to an increased headcount to catch up with the rapid development of the Group in order to achieve its long term goal. A total of four regional offices were established in Suzhou, Chengdu, Beijing and Hainan. Despite the slowdown in the PRC property market in 2008, the Group believes that people are key elements for future growth and grasp the opportunities ahead. The Group also provided extensive training, built an incentive scheme as well as a teamwork-oriented corporate culture with high sense of belonging to pave the way for long term development.

Other operating expenses, net

Other operating expenses of the Group increased by 63.6% to approximately RMB1.8 million in 2008 from approximately RMB1.1 million in 2007, primarily due to an increase in operating costs of facilities at our residential development such as clubhouses and dining facilities.

Fair value losses on investment properties, net

Induced by the global economic crisis, the rapid decline in the PRC property market and lack of new significant investment property, the Group reported net fair value losses on investment properties of approximately RMB23.6 million in 2008 (2007: gains of approximately RMB2,288.5 million).

Finance costs

Finance costs of the Group decreased by 100.0% to nil in 2008 from approximately RMB18.7 million in 2007, mainly reflecting the capitalisation of the borrowing costs on the corresponding projects in 2008.

Tax

Tax decreased by 79.4% to approximately RMB337.1 million in 2008 from approximately RMB1,637.8 million in 2007, primarily due to a decrease in profit attributable to the equity holders of the parent and provisions for LAT as a result of a decrease in properties sold in 2008. The decrease of the deferred tax charges resulting from the decrease in fair value gains on investment properties in 2008.

Profit attributable to the equity holders of the parent

Profit attributable to the equity holders of the parent of the Group in 2008 decreased by 86.3% to approximately RMB368.5 million from approximately RMB2,683.1 million in 2007. Net profit margin fell to 23.3% in 2008 from 69.4% in 2007, mainly due to the decrease in fair value gains on investment properties to net losses of approximately RMB23.6 million in 2008 as compared with gains of approximately RMB2,288.5 million in 2007. Stripping the effect of the fair value gains or losses, the profit attributable to equity holders of the parent of the Group would have been approximately RMB386.2 million for 2008, as compared to approximately RMB966.7 million for 2007, representing a net profit margin of 24.4% for 2008 and 25.0% for 2007.

Liquidity, Financial and Capital Resources

Cash position

As at 31 December 2008, the carrying amount of the Group's cash and bank deposits was approximately RMB1,373.0 million (31 December 2007: RMB3,436.0 million), representing a decrease of 60.0% as compared to that as at 31 December 2007.

Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sales proceeds received at designated bank accounts as guarantee deposits for construction of the relevant properties. As at 31 December 2008, the carrying amount of the restricted cash was approximately RMB205.9 million (31 December 2007: RMB147.4 million).

Borrowings and charges on the Group's assets

The Group had an aggregate borrowings as at 31 December 2008 of approximately RMB5,994.2 million, of which approximately RMB1,058.9 million will be repayable within 1 year, approximately RMB4,751.8 million will be repayable between 2 and 5 years and approximately RMB183.5 million will be repayable over 5 years.

As at 31 December 2008, the Group's bank loans of approximately RMB3,669.1 million were secured by property, plant and equipment, land use rights, investment properties, properties under development and completed properties held for sale of the Group with total carrying values of approximately RMB4,791.1 million.

The carrying amounts of all the Group's bank loans were denominated in RMB except for certain secured loan balances with an aggregate amount of approximately HK$1,038.0 million as at 31 December 2008 which were denominated in Hong Kong dollars. All of the Group's borrowings were charged at floating interest rates as at 31 December 2008.

Gearing ratio

The gearing ratio is measured by the net borrowings (total borrowings net of cash and cash equivalents and restricted cash) over the total equity. As at 31 December 2008, the gearing ratio was 50.3% (the Group was in a net cash position as at 31 December 2007). The increase in gearing ratio in 2008 was primarily attributable to the continuous raising of new borrowings as a result of the ongoing new property development projects.

Risk of exchange rate fluctuation

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

During 2008, though the exchange rates of RMB against the U.S. dollar and the Hong Kong dollar kept on increasing, the Board expects that any fluctuation of RMB's exchange rate will not have material adverse effect on the operation of the Group.

Contingent Liabilities

(i) As at 31 December 2008, the Group had the following contingent liabilities relating to guarantees in respect of mortgage facilities for certain purchasers amounting to approximately RMB1,624.9 million (31 December 2007: RMB1,558.1 million). This represented the guarantees in respect of mortgage facilities granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of property ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

    The fair value of the guarantees is not significant and the Board considers that in case of default in payments, the net realisable value of the related properties will be sufficient to 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 year ended 31 December 2008 for the guarantees.

(ii) Pursuant to certain land use rights grant contracts entered into between the Group and the relevant PRC land bureau, the land use rights of certain land were contracted to be granted to the Group upon full payment of the land premium under the respective land use rights grant contracts. According to the terms of such land use rights grant contracts, if the delay in payment of the land premium is outstanding for more than a specified period, the relevant PRC land bureau may terminate the land use rights grant contracts, repossess the relevant land and may also claim for the compensation. The Group has applied to the relevant PRC land bureau for extension of the time limit for payment of the outstanding land premium. As at the date of this report, the Group has not received any notice from the relevant PRC land bureau which would indicate that it intends to terminate the land use rights grant contracts and seek the compensation. Based on the legal advice of the Company's PRC legal advisers, the directors of the Company are of the opinion that the land use rights grant contracts are still effective and as at 31 December 2008, no accrual for compensation has been made as the likelihood of such liability arising has been determined to be remote.

Employees and Emolument Policies

As at 31 December 2008, the Group employed a total of approximately 1,700 employees. The total staff costs incurred was approximately RMB94.4 million during the financial year ended 31 December 2008. The remuneration of employees was determined based on their performance, skill, experience and prevailing industry practices. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment to commensurate with the pay level in the industry. In addition to basic salary, the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for PRC employees), employees may be offered with discretionary bonus and cash awards based on individual performance.

As at 31 December 2008, no options had been granted, exercised or cancelled under the share option scheme adopted on 11 June 2007.

Business Review

The market environment

Since late 2007, with the breakdown of the US sub-prime mortgage market, the global economy has experienced an unprecedented shock. During 2008, the collapse of major global financial markets, especially those in the US and Europe, has resulted in far-reaching effects in the credit market, fund flows and liquidity, which had rippling effects in all major business sectors. The Chinese economy, while remaining closely linked to the rest of the global economy, recorded respectable growth in 2008.

The Chinese property market has experienced a very difficult year in 2008. Prior to the outbreak of the global economic crisis, the PRC Central Government issued a number of key macroeconomic measures, with the aim to cool down the overheating real estate market. As these measures took effect in 2008, the global economic crisis caused a sharp turn in market sentiment, significantly affecting the PRC property market. In 2008, both property transaction volume and prices recorded significant decline. According to data published by the National Statistics Bureau, nationwide residential housing transactions for each quarter in 2008 decreased by 0.3%, 10.8%, 27.2% and 25.3% (measured by GFA), or by 5.2%, 4.9%, 33.9% and 26.0% (measured by transaction amounts), respectively. Starting from the third quarter of 2008, the focus of the government's macro-economic control policy had shifted from curbing overheated economic activities in the first half of the year to the preservation of economic growth in the latter half of the year.

Management Discussion and Analysis

In the PRC property sector, the Central Government and its local authorities adopted proactive fiscal measures such as tax and interest rate cuts, adjustments to down payment requirements and financial subsidies for property purchases. More specifically, the People's Bank of China announced five consecutive times of interest rate cuts in benchmark lending rates complemented by four cuts in deposit-reserve ratio requirement during the period, while the Ministry of Finance moved to lower the deed tax for first-time home buyers. In some cities in the PRC, home buyers were entitled to resident status, differentiated financial subsidies and reduction/exemption of personal taxes, etc. These efforts provided some stimulus to trading and played a positive role in stabilising and alleviating pressure in the property market. With the policies of preserving economic growth jointly implemented by the administrations at the central and local levels, China's property market returned to a more rational state for stable development.

As a result of these economic and property sector measures, sentiments have improved in the domestic property market in early 2009 as local governments continued to announce favourable policies in response to the Central Government's call for "stimulation of domestic demand, realignments to economic structure and preservation of economic growth". For the first two months of 2009, transaction amounts and the total GFA sold have increased by 13.1% and 1.1% respectively, as compared to the corresponding period in 2008. This shows an initial sign of bottoming out of the property market. With an extremely difficult operating environment in 2008, the Group inevitably reported disappointing financial results. At the same time, the Group has taken the effort to make substantial progress in its stated strategy of regional expansion, to prepare itself for 2009 and future years. These initiatives include:

1. Maintaining our leadership position in Guangzhou, with the delivery of our leading projects namely, The Cosmos and Sky Ville, as well as a successful launch of The Apex, and at the same time, making substantial progress in our new regions, with the successful initial launch of City Island in Suzhou;

2. Maintaining our competitive advantage in product design, cost control and brand management, all of which are critical in our continuous roll-out of new projects;

3. Maintaining an appropriate balance of high and mid-end products which suit the demand of our target consumers in each of our projects, and a balanced product mix, including residential, office, hotel and retail sectors;

4. Upgrading our operating efficiency, by setting up full regional offices in Southwest China (Chengdu, Hainan), East China (Suzhou), North China (Beijing), and together with our home base in Guangzhou, to form a network of business centers for our continued expansion in these regions;

5. Deepening our management team, to have professionals with relevant experience in their respective areas to join the Group, and improved our management information system and business processes; and

6. Maintaining prudent financial discipline and focus on cash flow and leverage, and continued to build up financial resources, which is especially important in a tight credit environment.

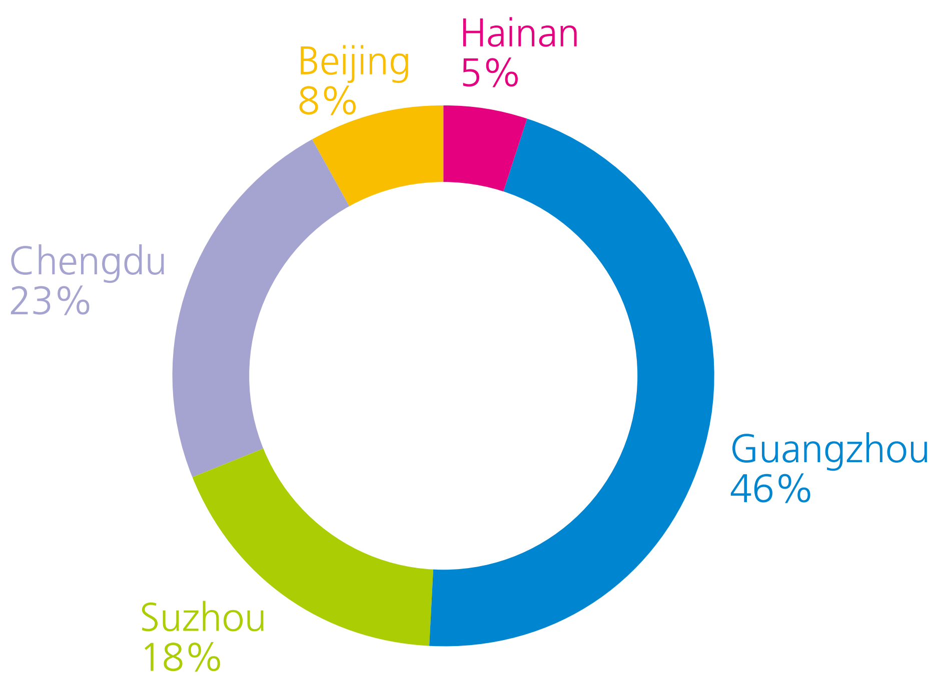
With the successful implementation of these initiatives, the Group believes it will be well-positioned to work through the current market challenges and capitalise on new opportunities as the global and Chinese economy recovers in 2009 and beyond.

Land bank

In 2009, the Group will continue to adopt a prudent policy with regard to the expansion of our land bank. We will maintain diversified sources for land acquisition, aiming at premium sites at prime urban locations with excellent growth potentials, which will augment the location value of our projects and geographic value of our products and thereby further reinforcing our ability in sustainable development. In 2008, we added GFA attributable to the Group with approximately 490,000 sq.m. through land auction in Beijing. Together with the land acquisition of approximately 1,300,000 sq.m. attributable GFA to the Group in Zengcheng in late 2007, as at 31 December 2008, the Group had a land bank of approximately 6,230,000 sq.m. attributable GFA, which should be sufficient to meet the requirements of the Group for its steady and sustainable development in the next 4 to 5 years.

Diversified land bank portfolio (as at 31 December 2008)

Total GFA attributable to the Group by geographical areas



Management Discussion and Analysis

North China

Beijing

Shunyi Project (香悦四季) 1 project Total Attributable GFA:approximately 490,000 sq.m.

East China

Suzhou

3 projects Total Attributable GFA: approximately 1,150,000 sq.m.

City Island
Up Blue Town
Plot B and C Project

Southwest China

Chengdu

4 projects Total Attributable GFA: approximately 1,724,000 sq.m.

The Emerald
The Vision of the World
Chengdu Cosmos

Hainan

Lingshui County Qingshuiwan Project

South China

Guangzhou

11 projects Total Attributable GFA: approximately 2,865,000 sq.m.

The Apex
Hui Feng
Sky Ville Phase II
Waterfront Mansion
Yucui Garden
Jinghu Garden
Kehui Development Centre
Linghui Chuangzhan Commercial Centre
Jingdong International City
Lie De Project
J2-2 Project

Management Discussion and Analysis

Projects under development

As at 31 December 2008, the Group had 16 development projects under development or planned for development, which were located in Guangzhou, Suzhou, Chengdu, Beijing and Hainan.

City (District)	Project	Type of property	Total GFA ('000 m²)	GFA attributable to the Group's Interest ('000 m²)	Interests attributable to the Group (%)
Guangzhou	The Apex	High-end comprehensive project: luxury residential/serviced apartments/5-star hotel	161	161	100
Guangzhou	Lie De	High-end comprehensive project: hotel/serviced apartments/office building/shopping mall	573	191	33
Guangzhou	J2-2	High-end comprehensive project: hotel/serviced apartments/office building/shopping mall	145	73	50
Guangzhou	Yucui Garden	Mid- to high-end residential	107	53	50
Guangzhou	Kehui Development Center	Office building	320	320	100
Guangzhou	Sky Ville Phase II	Low density villas/townhouses/ high-rise apartments/5-star hotel	345	345	100
Guangzhou	Waterfront Mansion	Townhouses/mid- to high-end residential	299	299	100
Guangzhou	Jingdong International City	Large scale comprehensive project: mid- to high-end residential/villas/ townhouses/commercial properties	2,548	1,299	51
Suzhou	City Island	Townhouses/mid- to high-end residential	215	215	100
Suzhou	The Up Blue Town	Mid- to high-end residential	147	147	100
Suzhou	Plot B/C Project	High-end residential/hotel/ office building	788	788	100
Chengdu	The Emerald	High-end residential	49	32	65*
Chengdu	The Vision of the World	Mid- to high-end residential	509	509	100
Chengdu	Chengdu Cosmos	High-end comprehensive project: residential/hotel/serviced apartments/office building/ shopping mall	873	567	65*
Beijing	Shunyi Project (香悦四季)	Mid- to high-end residential	490	490	100
Hainan	Lingshui County Qingshuiwan	Hotel/villas	293	293	100

* Subsequent to the completion of the transfer, the project will be 100% owned by the Group

Investment properties and hotels

During the year under review, the Group moderated the development of its hotels and investment properties in progress to assure a comfortable level of cash flow to meet market requirements. In the long run, the Group will continue to explore opportunities in diversified property investments and maintain a balanced product portfolio. We expect the contribution from our portfolio of hotels, retail shop units, shopping malls and offices held on a long-term basis to be steadily maintained at around 20% of the Group's gross revenue.

During the year under review, turnover of the Group from its investment in office premises and leasing of retail properties amounted to approximately RMB74.5 million (2007: approximately RMB11.7 million).

(1) *Hotels*

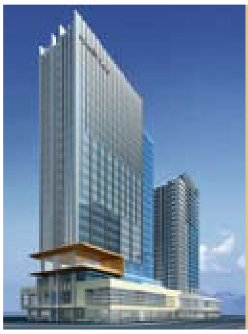
As at 31 December 2008, the Group had 3 high-end star-rated hotels in Guangzhou under construction and 6 other high-end star-rated hotels and 2 high-end shopping malls under planning, variously located in Guangzhou, Suzhou, Chengdu and Hainan. To ensure the quality of our hotel services, the Group entered into a management agreement with Starwood Group, an internationally renowned hotel management group. Pursuant to the agreement, Starwood Group will provide hotel and serviced apartment operation and management services with respect to the Group's W Hotel, Huadu Sheraton Resort Hotel, Four Points by Sheraton Hotel, Zengcheng Sheraton Hotel in Guangzhou, and Westin Hotel in Suzhou.

W Hotel

- Location – Pearl River New Town, Guangzhou
- Expected Commencement Schedule – 2010
- Number of rooms – 302
- Star – ★★★★★

Huadu Sheraton Resort Hotel

- Location – Huadu, Guangzhou
- Expected Commencement Schedule – second half of 2009
- Number of rooms – 97
- Star – ★★★★★



Four Points by Sheraton Hotel

- Location – Tianhe, Guangzhou
- Expected Commencement Schedule – second half of 2009
- Number of rooms – 310
- Star – ★★★★

Management Discussion and Analysis



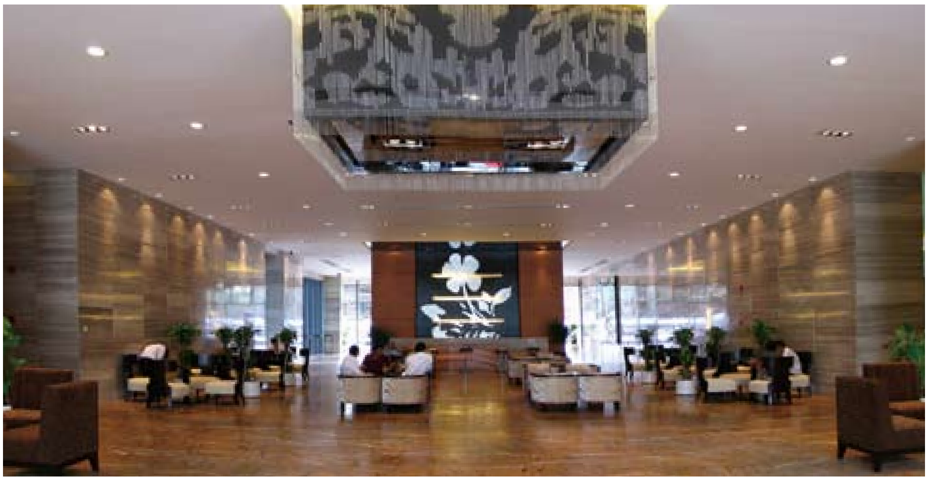

(2) *Investment properties completed and available for lease*

To uphold the portfolio of premium tenants that IFP has established since coming on-stream in 2007, the Group continues to lease spaces on a selective basis. At present, tenants who have signed up or agreed to sign up include about 20 domestic and foreign banks, the Guangzhou offices of various multi-national corporations and diplomatic institutions such as the Italian Consulate.

Business Outlook

The Group has strong confidence in the future of China's economy and its property market. Analysed from a broader perspective, there have been no drastic changes to the fundamentals of the property industry. The ongoing process of industrialisation and urbanisation in China, coupled with manifest as well as potential demand for housing, points to the conclusion that positive development of the property market will resume after temporary corrections.

Confronted with opportunities as well as challenges in the market, KWG Property will continue to gear up efforts in four key areas as follows, in a bid to broadly ensure the smooth accomplishment of all operating tasks and targets for 2009 and to lay a solid foundation for growth and development in the long run.



Staying tuned to the market – focusing on quality products at prime locations

Persistence and ability in producing quality is essential to meeting customer demand and winning market recognition. It is a goal that KWG Property strives to excel and prosper in, and also the way in which KWG Property will maintain its leadership. The Group has been focusing and will continue to focus on high-quality property development at prime urban locations. We will also focus on the research and development of products that meet the need of target customer groups and products that lead the market, such that its product mix will offer a close match to market demand and the Group will win broader recognition with the right products and achieve stronger buyer approval with excellence in quality.

Prudent expansion – rational and steady growth in scale

As at the end of December 2008, the Group had formed, through rational and steady expansion, business regions comprising the Southern China Region centered around Guangzhou, Eastern China Region centered around Suzhou, South-western China Region centered around Chengdu and Bohai Rim Region centered around Beijing. The Group will capitalise on its existing business scale and exercise scientific control over its business growth, striving for a forward-looking perspective to keep balance between prudence in expansion and reasonable growth for the benefit of long-term development.

Management Discussion and Analysis

Internal enhancements – amassing resources for the long term

The challenges arising from market changes and industry consolidation could only be turned into opportunities in our favour if we have readily prepared ourselves. During the year under review, the Group's overall operational capabilities were significantly enhanced and the collective expertise of our team was brought into full play through the optimisation and realignment of our internal structure, recruitment of high-caliber, all-rounded professionals, regional integration of human resources, upgrade of our information management system, implementation of tier brand-management and improvements in property management services. In 2009, KWG Property will continue to improve and upgrade internally, perfect the enterprise in the market and amass resources through such perfection, so that the Group will be able to act preemptively when the market shows signs of full recovery.

Caution in management and control – sound financials and resilience against risks

During the year under review, the Group maintained sound cash flow by launching new products with appropriate timing, making proactive adjustments to product mix, resorting to more flexible sales approaches and slowing down construction as appropriate depending on the sales of different projects in different regions. As at 31 December 2008, the net gearing ratio of the Group was approximately 50.3%, which remained at a relatively healthy level compared to its peers and testified the Group's ability in risk anticipation and funding control. In 2009, the Group will continue to persist in the strategy of maintaining sound cash flow and strengthen its ability to counter market risks by aligning launch plans and sales progress to control inventory at a reasonable level.

In 2009, KWG Property will resort to a more flexible and effective strategy that determines production according to sales, whereby the annual construction schedule will be scientifically evaluated and adjusted as appropriate on the basis of various indicators such as market response, the frequency of project launches and frontline sales, such that project construction will be more closely linked to sales and a more desirable balance between supply and sales will be achieved. The management is anticipating the launch of 16 projects in 2009, with 8 of them in Guangzhou and the rest in Suzhou, Chengdu and Beijing.

In 2009, the Group will reschedule its construction plans as appropriate according to external market conditions and internal sales conditions and flexibly respond to market changes, with the aim of accomplishing our full-year targets.

Directors and Senior Management's Profile

Directors

Executive Directors

Kong Jian Min, aged 41, is the founder of the Group, an executive director and the Chairman of the Company. Mr. Kong is primarily responsible for the formulation of our development strategies, as well as supervising our project planning, business operation and sales and marketing. Mr. Kong graduated from Jinan University majoring in computer science in 1989. Mr. Kong has over 14 years of experience in property development and investment. Prior to the founding of the Group, Mr. Kong served as a credit officer of the Baiyun Road Sub-Branch of the Guangzhou Branch of Industrial and Commercial Bank of China. Mr. Kong is a brother of Kong Jian Tao and Kong Jian Nan. Saved as disclosed above, Mr. Kong is also a director of all subsidiaries incorporated in the British Virgin Islands and various subsidiaries incorporated in the PRC of the Company.

Kong Jian Tao, aged 38, is an executive director and the Chief Executive Officer of the Company. Mr. Kong is responsible for the overall operation of the Group's projects. He has over 14 years of experience in property development and has been a director of the Group since 1995. Saved as disclosed above, Mr. Kong is also a director of all subsidiaries incorporated in the British Virgin Islands and various subsidiaries incorporated in the PRC of the Company.

Kong Jian Nan, aged 43, is an executive director and executive vice president of the Company. Mr. Kong is responsible for coordinating and managing human resource, administrative management, IT management and legal affairs of the Group. He is a graduate of China Central Radio and TV University and joined the Group in 1999. Saved as disclosed above, Mr. Kong is also a director of all subsidiaries incorporated in the British Virgin Islands and various subsidiaries incorporated in the PRC of the Company.

Li Jian Ming, aged 42, is an executive director of the Company and a vice president of the operations management division of the Group. Mr. Li graduated from South China University of Technology, majoring in industrial and civil construction. Mr. Li joined the Group in 1994 and had held the position of vice president in the engineering management division. He was appointed as an executive director of the Company in June 2007. Currently, Mr. Li is responsible for the internal operations and management of the Group. Save as disclosed above, Mr. Li is also a director of one of the subsidiaries incorporated in the PRC of the Company.

Tsui Kam Tim, aged 40, is an executive director, the Chief Financial Officer and the Company Secretary of the Company. Mr. Tsui is primarily responsible for the financial management and supervision of financial reporting, corporate finance, treasury, tax and other related finance matters. Mr. Tsui graduated from Australia National University with a bachelor's degree in Commerce and he is a professional member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he was a senior manager of an international firm of certified public accountants. Mr. Tsui joined the Group in January 2007 as the Chief Financial Officer and was appointed as an executive director of the Company in November 2007. Saved as disclosed above, Mr. Tsui is also a director of all subsidiaries incorporated in Hong Kong of the Company.

He Wei Zhi, aged 41, is an executive director of the Company, a vice president and a general manager of the South-western China Region of the Group. Mr. He graduated from Guangzhou University majoring in hotel management. He joined the Group in 1995 and had held the positions of manager and deputy general manager of the sales department. Since his joining of the Group, he has been responsible for project planning, design and sales planning work of the Group, gaining extensive experience in property market. Mr. He was appointed as an executive director of the Company on 1 February, 2009 and is mainly responsible for the overall operation and management of the South-western China Region. Saved as disclosed above, Mr. He is also a director of various subsidiaries incorporated in the PRC of the Company.

Directors and Senior Management's Profile

Independent Non-Executive Directors

Lee Ka Sze, Carmelo, aged 48, is an independent non-executive director and a member of audit committee of the Company. Mr. Lee received a bachelor's degree in Laws and the Postgraduate Certificate in Laws from The University of Hong Kong. He is qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory and has been a partner of Messrs. Woo, Kwan, Lee & Lo since 1989. Mr. Lee is a non-executive director of Y.T. Realty Group Limited, The Cross-Harbour (Holdings) Limited, China Pharmaceutical Group Limited, Hopewell Holdings Limited, Safety Godown Limited, Taifook Securities Group Limited, Termbray Industries International (Holdings) Limited and Yugang International Limited, all of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lee was a member of the Main Board Listing Committee of the Stock Exchange from 2000 to 2003. He is also an adjudicator of the Registration of Persons Tribunal and the chairman of the Transport Tribunal of the Hong Kong Government.

Dai Feng, aged 67, is an independent non-executive director, a member of audit committee and a member of remuneration committee of the Company. Mr. Dai is a member of the Expert Committee on Urban Planning of the Ministry of Construction (國家建設部城市規劃專家委員會), a member of the Expert Committee on Living Environment of the China Research Association on Property and Residence (中國房地產及住宅研究會人居環境委員會), and member of various other professional organizations on urban planning and research in the PRC. He is a part-time professor of Huazhong University of Science and Technology and Wuhan University of Technology and is also a fellow of the International Eurasian Academy of Sciences. Mr. Dai has over 40 years of experience in property development, specializing in urban planning, design and related information technology. Since 1985, he has won various prizes in urban planning and application of advanced technology. His achievements were highly recognized by the Ministry of Construction of China. Mr. Dai is an independent non-executive Director of Guangzhou R&F Properties Co. Ltd. which is listed on the Main Board of the Stock Exchange, and is also an independent non-executive Director of Poly Real Estate Group Co. Ltd. and Guangzhou Donghua Enterprises Co. Ltd., both of which are listed on the Shanghai Stock Exchange.

Tam Chun Fai, aged 47, is an independent non-executive director, chairman of audit committee and a member of remuneration committee of the Company. Mr. Tam graduated from The Hong Kong Polytechnic University with a bachelor's degree in accountancy. He is a member of the Hong Kong Institute of Certified Public Accountants and is also a member of Chartered Financial Analyst. Mr. Tam has over 20 years of experience in auditing and corporate advisory services as well as financial management and compliance work. He is an executive director, the financial controller and company secretary of Beijing Enterprises Holdings Limited, a company listed on the Main Board of the Stock Exchange and is an independent non-executive director of Hi Sun Technology (China) Limited, a company listed on the Main Board of the Stock Exchange.

Senior Management

Liang Zhong Wei, aged 52, is a vice president of resources of the Group and is primarily responsible for the finance management of the Group. Mr. Liang graduated from Jinan University with a bachelor's degree in finance. He has extensive experience in finance and capital management. Mr. Liang joined the Group in 2004. Prior to joining the Group, Mr. Liang was the branch manager of the Guangzhou High and New Technology Development Zone Sub-Branch of the Guangzhou Branch of the Industrial and Commercial Bank of China Limited.

Law Siu Wo, aged 46, is a vice president of finance of the Group. Mr. Law joined the Group in October 2008 and is responsible for the overall domestic and foreign financial budgets and analysis of the Group. He graduated from University of Wisconsin in the United States and holds a master's degree in business administration from University of California, Los Angeles. Mr. Law had worked for an international firm of certified public accountants for more than six years and another private equity fund for three years. He also had worked as financial controllers of several listed companies in Hong Kong and United States for more than 10 years. Mr. Law is a member of the American Institute of Certified Public Accountants and a member of Hong Kong Institute of Certified Public Accountants.

Luo Qing, aged 44, is a general manager of the engineering division of the Group. Mr. Luo joined the Group in 2001 and had held positions of project manager and project superintendent. Currently, Mr. Luo is responsible for the management and supervision of the Group's projects. Mr. Luo graduated from South China University of Technology with a bachelor's degree in building engineering and is a registered supervision engineer. He is experienced in project management. Before joining the Group, Mr. Luo was a general manager of a construction supervision company.

Luo Guo Qing, aged 46, is a vice president and a general manager of the Southern China Region of the Group. He is responsible for the overall operations and management of the Southern China Region. Mr. Luo holds a bachelor's degree in civil engineering from South China University of Technology, and a master's degree in business administration from Jinan University, and is a senior engineer in technical management. He has over 25 years of experience in the property industry and joined the Group in November 2008. Prior to joining the Group, Mr. Luo had held the positions of general manager and president at several large real estate development groups in the Southern China Region.

Yu Yao Sheng, aged 48, is a vice president and a general manager of the Eastern China and Northern China Region of the Group. Mr. Yu joined the Group in January 2009 and is responsible for the overall operations and management of the Eastern and Northern China Region. Mr. Yu is a senior engineer and a grade-one national registered structural engineer. He has extensive experience in architectural design, engineering management, project management, regional development, administration and human resources management. Mr. Yu graduated from Hefei University of Technology with a bachelor's degree in architecture, and also holds a master's degree from China University of Mining and Technology. Prior to joining the Group, Mr. Yu had held the positions of head of architectural design institute, deputy director of urban construction commission and executive deputy commander-in-chief of the construction command office of national development zones.

Chen Jie Ping, aged 36, is a director of the hotel and commerce division of the Group. Mr. Chen joined the Group in 2003 and had been responsible for the marketing and planning of the Group's projects. Currently, Mr. Chen is responsible for the planning and operations of hotel and commercial properties of the Group. Prior to joining the Group, Mr. Chen was a deputy general manager of a property agent and is experienced in the sale of properties in the PRC.

Zhang Wen Li, aged 41, is a general manager of the property management subsidiaries of the Group. She is responsible for the management and operation of the property management companies of the Group. Ms. Zhang graduated from Peking University majoring in law and she is an intermediate level economist of property and a senior property management professional. She joined the Group in 2004. Before joining the Group, she was the general manager of several well-known property management companies in Guangzhou City.

Wu Yue Zhao, aged 35, is a director of the product research and development division of the Group. He is responsible for the research, development and design of the products of the Group. Mr. Wu graduated from South China University of Technology with a master's degree in construction and is a registered planning professional. He joined the Group in 2006. Prior to joining the Group, he was the manager of the design department of several well-known property developers.

Zhou Yong Zi, aged 32, is a senior manager of the legal and compliance division of the Group. He is primarily responsible for the legal and compliance functions of the Group. Mr. Zhou graduated from East China University of Political Science and Law with a bachelor's degree in law and practiced as a lawyer and was a consultant in several medium to large size enterprises before joining the Group. He joined the Group in November 2006.

Corporate Governance Report

Compliance with the Code on Corporate Governance Practices

The Company believes that sound and good corporate governance practices are not only key elements in enhancing investor confidence and the Company's accountability and transparency but also important to the Company's long-term success. The Company, therefore, strives to attain and maintain effective corporate governance practices and procedures. The Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code Provision") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2008.

Board of Directors

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

As at 31 December 2008, the Board consists of eight members, including five executive directors, Mr. Kong Jian Min (Chairman), Mr. Kong Jian Tao, Mr. Kong Jian Nan, Mr. Li Jian Ming and Mr. Tsui Kam Tim, and three independent non-executive directors, Mr. Lee Ka Sze, Carmelo, Mr. Dai Feng and Mr. Tam Chun Fai. Biographical details of the Directors are herein set out on pages 33 to 35. Messrs. Kong Jian Min, Kong Jian Tao and Kong Jian Nan are brothers. Save as disclosed, there is no family or other material relationship among members of the Board.

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

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

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

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

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

During the year of 2008, the Board held four meetings. At these board meetings, directors discussed and exchanged their views on significant issues and general operations of the Group, formulated business policies and strategies, reviewed the financial performance and internal control system, including financial, operational and compliance controls and risk management systems, and reviewed and approved the interim results.

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

Directors	Meetings Attended/Total
Executive Directors	
Kong Jian Min *(Chairman)*	4/4
Kong Jian Tao	4/4
Kong Jian Nan	4/4
Li Jian Ming	4/4
Tsui Kam Tim	4/4
Independent Non-Executive Directors	
Lee Ka Sze, Carmelo	4/4
Dai Feng	4/4
Tam Chun Fai	4/4

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

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

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

Chairman and Chief Executive Officer

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

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

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

Compliance with Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Specific enquiries have been made with all directors of the Company regarding any non-compliance with the Model Code and all directors of the Company confirmed that they have complied with the provisions of the Model Code during the financial year ended 31 December 2008.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparation of the financial statements for the financial year ended 31 December 2008 which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" contained in this annual report.

Board Committees

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

Audit Committee and Accountability

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

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

The audit committee held two meetings during the year and all minutes were kept by the company secretary. The audit committee has reviewed the accounting policies and practices adopted by the Group and the interim results of the Group as well as assessed the effectiveness of the Group's internal control and risk management system. The audit committee reported that there was no material uncertainty that cast doubt on the Company's going concern ability.

Attendance of individual members of the audit committee at meetings for the year ended 31 December 2008 is set out as follows:

Committee Members	Meetings Attended/Total
Lee Ka Sze, Carmelo	2/2
Dai Feng	2/2
Tam Chun Fai	2/2

For the year ended 31 December 2008, the external auditors' remuneration in respect of audit services provided to the Group amounted to approximately RMB3,500,000 and fees for non-audit services amounted to an aggregate amount of HK$150,000, being the service charge for the review of financial information.

Remuneration Committee

The remuneration committee was established with written terms of reference in accordance with the Code Provisions as set out in Appendix 14 to the Listing Rules. The principal responsibilities of the remuneration committee include formulation and making recommendations on remuneration policy and remuneration package of the directors and members of senior management to the Board. The remuneration committee comprises an executive director, namely Mr. Kong Jian Min, and two independent non-executive directors, namely Mr. Tam Chun Fai and Mr. Dai Feng. Mr. Kong Jian Min is the chairman of the remuneration committee.

The Board expects the remuneration committee to exercise independent judgment and ensures that executive directors do not participate in the determination of their own remuneration.

During the year ended 31 December 2008, no meeting was held by the remuneration committee but members of the remuneration committee have reviewed the remuneration packages of the directors and the remuneration policies of the Company, which are determined with reference to the prevailing market practices.

Nomination Committee

The nomination committee was established on 11 June 2007. The nomination committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships. The nomination committee comprises an executive director, namely Mr. Kong Jian Min, and two independent non-executive directors, namely Mr. Tam Chun Fai and Mr. Dai Feng. Mr. Kong Jian Min is the chairman of the nomination committee.

During the year ended 31 December 2008, no meeting was held by the nomination committee but members of the nomination committee have reviewed the composition of the Board which are determined by directors' skills and experience appropriate to the Company's business.

Internal Control

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

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

The Board conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management for the year ended 31 December 2008. The assessment was made by discussions with the management of the Company, its external and internal auditors and the review performed by the audit committee. The Board believes that the existing internal control systems are adequate and effective.

Shareholder Relations

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

The rights of shareholders are contained in the Articles of Association. The annual general meeting proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices and shareholders' rights are preserved. Notice of annual general meeting is delivered to all shareholders at least 20 clear business days prior to the date of the meeting, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. At the beginning of the meeting, the procedures for demanding and conducting a poll will be explained by the Chairman. Vote results will be posted on the Company's website.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

Principal Activities

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

Results and Dividends

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 50 to 110.

The board of directors (the "Board") of the Company has proposed payment of final dividend of RMB3 cents per ordinary share for the year ended 31 December 2008. The proposed final dividend, if approved by the shareholders at the forthcoming annual general meeting, will be paid on or before 10 July 2009 to the shareholders on the Register of Members as at 5 June 2009.

Summary Financial Information

A financial summary of the Group is set out on page 112. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Investment Properties

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's major investment properties are set out on page 111.

Properties under Development

Details of the properties under development of the Group during the year are set out in note 20 to the financial statements. Further details of the Group's major properties under development are set out on page 111.

Completed Properties held for Sale

Details of the completed properties held for sale of the Group during the year are set out in note 21 to the financial statements. Further details of the Group's major completed properties held for sale are set out on page 111.

Share Capital and Share Options

There were no movements in either the Company's authorised or issued share capital during the year. No share options were granted since the adoption of the Share Option Scheme on 11 June 2007, a summary of the principal terms of the Share Option Scheme is set out in note 31 to the financial statements.

Pre-emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity.

Distributable Reserves

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with article 146 of the articles of association of the Company, amounted to approximately RMB5,493,552,000, of which approximately RMB77,813,000 has been proposed as a final dividend for the year.

Charitable Contributions

During the year, the Group made charitable contributions totalling RMB2,298,000.

Major Customers and Suppliers

For the year ended 31 December 2008, sales to the Group's five largest customers accounted for less than 30% of the Group's revenue in the year.

In the year under review, payment attributable to the Group's largest contractor and five largest contractors amounted to approximately 12.2% and 40.6% respectively, of the total payment under construction contracts for the year. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 10.5% and 36.4% respectively, of the total purchases for the year.

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

Report of the Directors

Directors

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Mr. Kong Jian Min
Mr. Kong Jian Tao
Mr. Kong Jian Nan
Mr. Li Jian Ming
Mr. Tsui Kam Tim
Mr. He Wei Zhi (appointed on 1 February 2009)

Independent non-executive directors:
Mr. Lee Ka Sze, Carmelo
Mr. Dai Feng
Mr. Tam Chun Fai

In accordance with articles 86(3), 87(1) and 87(2) of the Company's articles of association, Messrs. Kong Jian Min and Kong Jian Tao will retire from office as executive directors of the Company by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Mr. He Wei Zhi will only hold office as executive director of the Company until the forthcoming annual general meeting and, being eligible, will offer himself for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for a period of one year.

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

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 33 to 35 of the annual report.

Directors' Service Contracts

Each of Messrs. Kong Jian Min, Kong Jian Tao, Kong Jian Nan, Li Jian Min and Tsui Kam Tim has a service contract with the Company for a term of three years and Mr. He Wei Zhi has a service contract with the Company for a term of three years commencing on 1 February 2009 and each of these service contracts is subject to termination by either party giving not less than three months' written notice.

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

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

Directors' Remuneration

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

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2008, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions in Ordinary Shares of the Company:

Name of Director	Long position/ short position	Nature of interests	Approximate number of shares held (Note 1)	Approximate percentage of shareholding
Kong Jian Min (Notes 2, 3 and 4)	Long Position	Interest of a controlled corporation	1,714,441,500	66.10%
Kong Jian Tao (Notes 2 and 3)	Long Position	Interest of a controlled corporation	1,687,500,000	65.06%
Kong Jian Nan (Notes 2 and 3)	Long Position	Interest of a controlled corporation	1,687,500,000	65.06%

Notes:

1. Share(s) of HK$0.10 each in the capital of the Company.

2. Plus Earn Consultants Limited ("**Plus Earn**") is legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15% by Kong Jian Tao and as to 8.5% by Kong Jian Nan. Therefore, Kong Jian Min, Kong Jian Tao and Kong Jian Nan are deemed to be interested in 1,612,500,000 Shares through their interests in Plus Earn.

3. Right Rich Consultants Limited ("**Right Rich**") is legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15% by Kong Jian Tao and as to 8.5% by Kong Jian Nan. Therefore, Kong Jian Min, Kong Jian Tao and Kong Jian Nan are deemed to be interested in 75,000,000 Shares through their interests in Right Rich.

4. Hero Fine Group Limited ("**Hero Fine**") is legally and beneficially owned as to 100% by Kong Jian Min and Kong Jian Min is therefore deemed to be interested in 26,941,500 Shares through his interest in Hero Fine.

Long positions in shares and underlying shares of associated corporations:

Name of Director	Associated Corporations	Number of shares	Approximate percentage of shareholding in associated corporations
Kong Jian Min	Plus Earn	765	76.50%
	Right Rich	765	76.50%
Kong Jian Tao	Plus Earn	150	15.00%
	Right Rich	150	15.00%
Kong Jian Nan	Plus Earn	85	8.50%
	Right Rich	85	8.50%

Save as disclosed above, as at 31 December 2008, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Substantial Shareholders

At 31 December 2008, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity	Number of shares (Note 1)	Percentage of issued share capital
Plus Earn (Note 2)	Beneficial owner	1,612,500,000	62.17%

Notes:

1. Share(s) of HK$0.10 each in the capital of the Company.

2. Plus Earn is legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15% by Kong Jian Tao and as to 8.5% by Kong Jian Nan.

Save as disclosed above, as at 31 December 2008, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Directors' Rights to Acquire Shares or Debentures

No share option has been granted. At no time during the year of 2008 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of share in, or debt securities (including debentures) of, the Company or any other body corporate.

Share Option Scheme

By the resolutions of shareholders of the Company passed on 11 June 2007, a share option scheme (the "Share Option Scheme") was conditionally approved. Since the Share Option Scheme became effective upon the Company's listing, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the year and there are no outstanding share options under the Share Option Scheme as at 31 December 2008.

Contract of Significance

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

Connected Transactions

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

Directors' Interests in a Competing Business

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

Post Balance Sheet Events

Details of the significant post balance events of the Group are set in note 42 to the financial statements.

Auditors

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

ON BEHALF OF THE BOARD

Kong Jian Min
Chairman

Hong Kong
17 April 2009

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of KWG Property Holding Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of KWG Property Holding Limited set out on pages 50 to 110, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

17 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	5	1,574,214	3,868,136
Cost of sales		(746,413)	(1,809,200)
Gross profit		827,801	2,058,936
Other income and gains	5	150,644	206,549
Selling and marketing costs		(89,514)	(65,437)
Administrative expenses		(170,908)	(148,099)
Other operating expenses, net		(1,758)	(1,086)
Fair value (losses)/gains on investment properties, net		(23,569)	2,288,520
Finance costs	7	–	(18,749)
Share of profit and loss of a jointly-controlled entity		10,582	(36)
PROFIT BEFORE TAX	6	703,278	4,320,598
Tax	10	(337,108)	(1,637,788)
PROFIT FOR THE YEAR		366,170	2,682,810
Attributable to:			
Equity holders of the parent	11	368,532	2,683,055
Minority interests		(2,362)	(245)
		366,170	2,682,810
DIVIDENDS	12		
Proposed final		77,813	389,063
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted		RMB14 cents	RMB120 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	443,268	227,685
Investment properties	15	3,546,400	3,650,919
Land use rights	16	549,952	875,254
Interest in a jointly-controlled entity	18	20,487	3,905
Deferred tax assets	29	168,453	111,371
Long term prepayment	19	1,098,483	933,359
Total non-current assets		5,827,043	5,802,493
CURRENT ASSETS			
Properties under development	20	11,878,560	7,745,585
Completed properties held for sale	21	1,534,404	1,189,629
Trade receivables	22	30,713	34,620
Prepayments, deposits and other receivables	23	1,069,487	735,413
Due from a jointly-controlled entity	18	50,314	29,001
Taxes recoverable	24(a)	3,316	1,800
Restricted cash	25	205,942	147,353
Cash and cash equivalents	25	1,167,009	3,288,639
Total current assets		15,939,745	13,172,040
CURRENT LIABILITIES			
Trade payables	26	2,879,007	3,437,982
Other payables and accruals	27	2,063,396	1,755,906
Interest-bearing bank loans	28	1,058,928	275,068
Taxes payable	24(b)	1,012,289	1,149,171
Total current liabilities		7,013,620	6,618,127
NET CURRENT ASSETS		8,926,125	6,553,913
TOTAL ASSETS LESS CURRENT LIABILITIES		14,753,168	12,356,406

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		14,753,168	12,356,406
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	28	4,935,253	2,445,404
Deferred tax liabilities	29	626,704	638,656
Total non-current liabilities		5,561,957	3,084,060
Net assets		9,191,211	9,272,346
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	30	254,093	254,093
Reserves	32(a)	8,136,797	7,890,527
Proposed final dividend	12	77,813	389,063
		8,468,703	8,533,683
Minority interests		722,508	738,663
Total equity		9,191,211	9,272,346

Kong Jian Min
Director

Kong Jian Tao
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the parent								
	Notes	Issued capital RMB'000 (note 30)	Share premium account RMB'000 (note 30)	Reserve funds RMB'000 (note 32(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007		–	666,873	55,639	6,031	258,484	–	987,027	–	987,027
Exchange realignment		–	–	–	(45,550)	–	–	(45,550)	127	(45,423)
Total income and expense recognised directly in equity		–	–	–	(45,550)	–	–	(45,550)	127	(45,423)
Profit/(loss) for the year		–	–	–	–	2,683,055	–	2,683,055	(245)	2,682,810
Total income and expense for the year		–	–	–	(45,550)	2,683,055	–	2,637,505	(118)	2,637,387
Acquisition of subsidiaries	39	–	–	–	–	–	–	–	1,650	1,650
Capitalisation of share premium account	30	184,241	(184,241)	–	–	–	–	–	–	–
Issue of shares	30	69,852	5,015,374	–	–	–	–	5,085,226	–	5,085,226
Share issue expenses	30	–	(176,075)	–	–	–	–	(176,075)	–	(176,075)
Capital contribution from minority shareholders		–	–	–	–	–	–	–	737,131	737,131
Transfer to reserves		–	–	94,705	–	(94,705)	–	–	–	–
Proposed final 2007 dividend	12	–	–	–	–	(389,063)	389,063	–	–	–
At 31 December 2007 and 1 January 2008		254,093	5,321,931*	150,344*	(39,519)*	2,457,771*	389,063	8,533,683	738,663	9,272,346
Exchange realignment		–	–	–	(44,449)	–	–	(44,449)	(13,793)	(58,242)
Total income and expense recognised directly in equity		–	–	–	(44,449)	–	–	(44,449)	(13,793)	(58,242)
Profit/(loss) for the year		–	–	–	–	368,532	–	368,532	(2,362)	366,170
Total income and expense for the year		–	–	–	(44,449)	368,532	–	324,083	(16,155)	307,928
Final 2007 dividend declared		–	–	–	–	–	(389,063)	(389,063)	–	(389,063)
Transfer to reserves		–	–	39,001	–	(39,001)	–	–	–	–
Proposed final 2008 dividend	12	–	–	–	–	(77,813)	77,813	–	–	–
At 31 December 2008		254,093	5,321,931*	189,345*	(83,968)*	2,709,489*	77,813	8,468,703	722,508	9,191,211

* These reserve accounts comprise the consolidated reserves of approximately RMB8,136,797,000 (2007: RMB7,890,527,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**703,278**	4,320,598
Adjustments for:			
Finance costs	7	**–**	18,749
Share of profit and loss of a jointly-controlled entity		**(10,582)**	36
Bank interest income	5	**(23,537)**	(133,327)
Gain on disposal of investment properties	5	**(44,752)**	(13,784)
Loss on disposal of items of property, plant and equipment	6	**331**	–
Depreciation	6	**8,638**	5,930
Amortisation of land use rights	6	**618**	263
Changes in fair values of investment properties	15	**23,569**	(2,288,520)
		657,563	1,909,945
Increase in properties under development		**(3,168,278)**	(5,543,926)
Increase in completed properties held for sale		**(344,775)**	(1,180,681)
(Increase)/decrease in trade receivables		**3,907**	(31,578)
Increase in prepayments, deposits and other receivables		**(331,389)**	(630,086)
Decrease in amount due from a director		**–**	77,428
Increase/(decrease) in trade payables		**(857,469)**	3,339,481
Increase in other payables and accruals		**307,490**	1,171,431
Decrease in amounts due to related companies		**–**	(168,778)
Increase in amount due from a jointly-controlled entity		**(21,313)**	(42,000)
Increase in restricted cash		**(58,589)**	(97,706)
Cash used in operations		**(3,812,853)**	(1,196,470)
Interest received		**23,537**	133,327
Interest paid		**(377,845)**	(186,874)
Corporate income tax paid		**(508,430)**	(185,586)
Land appreciation tax paid		**(36,110)**	(30,914)
Net cash outflow from operating activities		**(4,711,701)**	(1,466,517)

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Net cash outflow from operating activities		(4,711,701)	(1,466,517)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(222,059)	(413,713)
Acquisition of land use rights		(6,882)	(779,575)
Increase in long term prepayment		(165,124)	(933,359)
Proceeds from disposal of investment properties		125,702	65,379
Acquisition of subsidiaries	39	–	(143,638)
Proceeds from disposals of property, plant and equipment		193	–
Additional investment in a jointly-controlled entity		(6,000)	–
Net cash outflow from investing activities		(274,170)	(2,204,906)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	30	–	5,085,226
Share issue expenses	30	–	(176,075)
Decrease in restricted cash		–	152,785
New bank loans		3,816,473	2,735,723
Repayment of bank loans		(458,512)	(2,282,016)
Capital contributions from minority shareholders		–	737,131
Dividend paid		(389,063)	—
Net cash inflow from financing activities		2,968,898	6,252,774
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(2,016,973)	2,581,351
Cash and cash equivalents at beginning of year		3,288,639	803,904
Effect of foreign exchange rate changes, net		(104,657)	(96,616)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,167,009	3,288,639
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	1,156,436	3,169,400
Non-pledged time deposits with original maturity of less than three months when acquired	25	10,573	119,239
		1,167,009	3,288,639

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	397	499
Interests in subsidiaries	17	5,685,560	6,004,880
Total non-current assets		5,685,957	6,005,379
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	2,072	444
Cash and cash equivalents	25	61,375	127,247
Total current assets		63,447	127,691
CURRENT LIABILITIES			
Other payables and accruals	27	1,759	944
Total current liabilities		1,759	944
NET CURRENT ASSETS		61,688	126,747
Net assets		5,747,645	6,132,126
EQUITY			
Issued capital	30	254,093	254,093
Reserves	32(b)	5,415,739	5,488,970
Proposed final dividend	12	77,813	389,063
Total equity		5,747,645	6,132,126

Kong Jian Min
Director

Kong Jian Tao
Director

Notes to Financial Statements

31 December 2008

1. Corporate Information

KWG Property Holding Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Group was involved in the following principal activities in the People's Republic of China (the "PRC"):

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

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

2.1 Basis of Preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

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

Notes to Financial Statements

31 December 2008

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

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

HKAS 39 & HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC) – Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC) – Int 12	*Service Concession Arrangements*
HK(IFRIC) – Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 Impact of Issued but Not Yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs and HKAS27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 1 (Revised)	*First-time Adoption of HKFRSs*[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*[1]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC) – Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) – Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*[6]
HK(IFRIC) – Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC) – Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC) – Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC) – Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC) – Int 18	*Transfers of Assets from Customers*[5]

2.3 Impact of Issued but Not Yet Effective Hong Kong Financial Reporting Standards *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for transfers of assets from customers received on or after 1 July 2009
[6] Effective for annual periods ending on or after 30 June 2009

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

* *Improvements to HKFRSs* contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Joint ventures

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

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

Notes to Financial Statements
31 December 2008

2.4 Summary of Significant Accounting Policies *(continued)*

Joint ventures *(continued)*

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

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

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

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

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

Jointly-controlled operations

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.4 Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment and depreciation

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

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

Buildings	3% to 5%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	10% to 20%

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

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

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

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

Investment properties

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

2.4 Summary of Significant Accounting Policies *(continued)*

Investment properties *(continued)*

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

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

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

Leases

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

Land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Properties under development

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

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

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

Completed properties held for sale

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

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets

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

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

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

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

Loans and receivables

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

Impairment of financial assets

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

Assets carried at amortised cost

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

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost (continued)

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

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

Derecognition of financial assets

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

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

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

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

Financial liabilities including trade and other payables and interest-bearing bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

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

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interest in the joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interest in the joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Government grants

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

Revenue recognition

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

(a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities;

(b) rental income, on a time proportion basis over the lease terms;

(c) property management fee income, when the related management services have been provided; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Pension schemes

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

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

Borrowing costs

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

2.4 Summary of Significant Accounting Policies *(continued)*

Dividends

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

Foreign currencies

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

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

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

3. Significant Accounting Judgements and Estimates

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

3. Significant Accounting Judgements and Estimates *(continued)*

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Classification between investment properties and properties held for sale

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2008 was approximately RMB14,023,000 (2007: Nil). Further details are contained in note 29 to the financial statements.

Estimation uncertainty

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

3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

Corporate income taxes

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

PRC land appreciation taxes

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

Fair value of investment properties

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

Impairment of non-financial assets

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

Recognition and allocation of construction cost on properties under development

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

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

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

4. Segment Information

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

(a) the property development segment engages in the development and sale of properties;

(b) the property investment segment invests in properties for their rental income and/or for capital appreciation; and

(c) the property management segment engages in the provision of management services to residential and commercial properties.

There were no intersegment sales and transfers during the year (2007: Nil).

4. Segment Information *(continued)*

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008

	Property development RMB'000	Property investment RMB'000	Property management RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	1,471,220	74,526	28,468	1,574,214
Segment results	644,342	92,492	20,878	757,712
Interest income and unallocated income				105,892
Unallocated expenses				(170,908)
Share of profit and loss of a jointly-controlled entity	10,582	–	–	10,582
Profit before tax				703,278
Tax				(337,108)
Profit for the year				366,170
Assets and liabilities:				
Segment assets	14,609,926	4,471,471	384	19,081,781
Interest in a jointly-controlled entity	20,487	–	–	20,487
Unallocated assets				2,664,520
Total assets				21,766,788
Segment liabilities	3,329,387	353,302	–	3,682,689
Unallocated liabilities				8,892,888
Total liabilities				12,575,577
Other segment information:				
Depreciation and amortisation	9,464	2,437	41	11,942
Fair value losses on investment properties, net	–	23,569	–	23,569

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31 December 2008

4. Segment Information *(continued)*

Business segments *(continued)*
Year ended 31 December 2007

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

5. Revenue, Other Income and Gains

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

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

	2008 RMB'000	2007 RMB'000
Revenue		
Sale of properties	1,471,220	3,846,838
Gross rental income	74,526	11,639
Property management fees	28,468	9,659
	1,574,214	3,868,136
Other income and gains		
Bank interest income	23,537	133,327
Gain on disposal of investment properties	44,752	13,784
Government grant*	–	7,900
Foreign exchange differences, net	73,675	43,179
Others	8,680	8,359
	150,644	206,549

* Government grant was received in 2007 for setting up business in an economic and technological development zone in Guangzhou, Guangdong Province, the PRC. There are no unfulfilled conditions or contingencies relating to this grant.

6. Profit Before Tax

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

	Notes	2008 RMB'000	2007 RMB'000
Cost of properties sold		738,895	1,804,785
Depreciation	14	8,638	5,930
Amortisation of land use rights	16	3,304	263
Less: Amount capitalised in assets under construction		(2,686)	–
		618	263
Minimum lease payments under operating leases of land and buildings		3,673	1,819
Auditors' remuneration		3,500	3,468
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		89,371	63,875
Pension scheme contributions*		5,041	2,835
Less: Amount capitalised in assets under construction and properties under development		(41,867)	(30,224)
		52,545	36,486
Loss on disposal of items of property, plant and equipment		331	–
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		13,799	2,337

* At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future year (2007: Nil).

7. Finance Costs

	Group 2008 RMB'000	2007 RMB'000
Interest on bank loans wholly repayable within five years	302,997	186,629
Interest on bank loans wholly repayable after five years	37,011	–
Interest on amounts due to related companies	–	245
Less: Interest capitalised	(340,008)	(168,125)
	–	18,749

8. Directors' Remuneration

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

	Group 2008 RMB'000	2007 RMB'000
Fees	2,120	1,027
Other emoluments:		
Salaries, allowances and benefits in kind	4,442	2,246
Pension scheme contributions	188	132
	4,630	2,378
	6,750	3,405

(a) Independent non-executive directors

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

	2008 RMB'000	2007 RMB'000
Mr. Lee Ka Sze, Carmelo	265	140
Mr. Dai Feng	265	140
Mr. Tam Chun Fai	265	140
	795	420

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

8. Directors' Remuneration *(continued)*

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2008				
Executive directors:				
Mr. Kong Jian Min	**265**	**880**	**40**	**1,185**
Mr. Kong Jian Tao	**265**	**755**	**42**	**1,062**
Mr. Kong Jian Nan	**265**	**756**	**42**	**1,063**
Mr. Li Jian Ming	**265**	**905**	**43**	**1,213**
Mr. Tsui Kam Tim	**265**	**1,146**	**21**	**1,432**
	1,325	**4,442**	**188**	**5,955**
2007				
Executive directors:				
Mr. Kong Jian Min	140	801	35	976
Mr. Kong Jian Tao	140	443	34	617
Mr. Kong Jian Nan	140	443	34	617
Mr. Li Jian Ming	140	392	25	557
Mr. Tsui Kam Tim	47	167	4	218
	607	2,246	132	2,985

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).

9. Five Highest Paid Employees

All of the five highest paid employees during the year ended 31 December 2008 were the directors of the Company, details of whose remuneration are set out in note 8 above.

The five highest paid employees for the year ended 31 December 2007 included three directors. Details of the remuneration of the remaining two non-director, highest paid employees for the year are as follows:

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

9. Five Highest Paid Employees *(continued)*

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

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

No emoluments were paid by the Group to the directors or any of the non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2007: Nil).

10. Tax

	Group 2008 RMB'000	2007 RMB'000
Current – PRC		
Corporate income tax ("CIT")	**208,548**	660,604
Land appreciation tax ("LAT")	**197,594**	572,215
	406,142	1,232,819
Deferred (note 29)	**(69,034)**	404,969
Total tax charge for the year	**337,108**	1,637,788

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

	Group 2008 RMB'000	2007 RMB'000
Profit before tax	**703,278**	4,320,598
At statutory income tax rate of 25% (2007: 33%)	**175,820**	1,425,797
Effect on deferred tax of decrease in rates	**–**	(205,208)
Income not subject to tax	**(3,323)**	(44,982)
Expenses not deductible for tax	**5,906**	22,400
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**17,389**	–
Profit and loss attributable to a jointly-controlled entity	**(2,645)**	–
Land appreciation tax	**197,594**	572,215
Effect of land appreciation tax	**(49,398)**	(143,054)
Others	**(4,235)**	10,620
Tax charge at the Group's effective rate of 47.9% (2007: 37.9%)	**337,108**	1,637,788

10. Tax *(continued)*

The share of CIT and LAT attributable to the jointly-controlled entity amounting to approximately RMB3,527,000 (2007: Nil) and RMB4,931,000 (2007: Nil), respectively, is included in "Share of profit and loss of a jointly-controlled entity" on the face of the consolidated income statement.

Hong Kong profits tax

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2007 and 2008.

PRC corporate income tax

The PRC CIT in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the years ended 31 December 2007 and 2008, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC CIT law passed during the Tenth National People's Congress on 16 March 2007, the new CIT rates for domestic and foreign enterprises were unified at 25%, which was effective from 1 January 2008. As a result, the CIT rate of all the subsidiaries of the Company incorporated in the PRC changed from 33% to 25% with effect from 1 January 2008.

PRC land appreciation tax

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

11. Profit Attributable to Equity Holders of the Parent

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of approximately RMB321,485,000 (2007: RMB480,358,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. Dividends

	2008 RMB'000	2007 RMB'000
Proposed final – RMB3 cents (2007: RMB15 cents) per ordinary share	77,813	389,063

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

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share amount for the years ended 31 December 2007 and 2008 is the same as the basic earnings per share as no diluting events existed during these years.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent *(continued)*

The calculation of basic earnings per share is based on:

	2008 RMB'000	2007 RMB'000
Earnings Profit attributable to ordinary equity holders of the parent	**368,532**	2,683,055

	Number of shares 2008	2007
Shares Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,593,750,000**	2,231,849,315

14. Property, Plant and Equipment

Group

	Buildings RMB'000	Leasehold improve-ments RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
31 December 2008							
At 31 December 2007 and at 1 January 2008:							
Cost	80,893	1,329	3,188	8,864	23,697	126,727	244,698
Accumulated depreciation	(3,188)	(1,329)	(1,734)	(2,321)	(8,441)	–	(17,013)
Net carrying amount	77,705	–	1,454	6,543	15,256	126,727	227,685
At 1 January 2008, net of accumulated depreciation	77,705	–	1,454	6,543	15,256	126,727	227,685
Additions	–	267	–	11,624	9,097	203,757	224,745
Disposals	–	–	–	–	(524)	–	(524)
Depreciation provided during the year	(3,191)	(99)	(552)	(2,404)	(2,392)	–	(8,638)
At 31 December 2008, net of accumulated depreciation	74,514	168	902	15,763	21,437	330,484	443,268
At 31 December 2008:							
Cost	80,893	1,596	3,188	20,488	31,439	330,484	468,088
Accumulated depreciation	(6,379)	(1,428)	(2,286)	(4,725)	(10,002)	–	(24,820)
Net carrying amount	74,514	168	902	15,763	21,437	330,484	443,268

Notes to Financial Statements
31 December 2008

14. Property, Plant and Equipment *(continued)*

Group

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

14. Property, Plant and Equipment *(continued)*

Company

	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2008			
At 31 December 2007 and at 1 January 2008:			
Cost	47	482	529
Accumulated depreciation	(7)	(23)	(30)
Net carrying amount	40	459	499
At 1 January 2008, net of accumulated depreciation	40	459	499
Additions	1	–	1
Depreciation provided during the year	(15)	(88)	(103)
At 31 December 2008, net of accumulated depreciation	26	371	397
At 31 December 2008:			
Cost	48	482	530
Accumulated depreciation	(22)	(111)	(133)
Net carrying amount	26	371	397
31 December 2007			
At 1 January 2007, net of accumulated depreciation	–	–	–
Additions	47	482	529
Depreciation provided during the year	(7)	(23)	(30)
At 31 December 2007, net of accumulated depreciation	40	459	499
At 31 December 2007:			
Cost	47	482	529
Accumulated depreciation	(7)	(23)	(30)
Net carrying amount	40	459	499

At 31 December 2008, certain of the Group's buildings of approximately RMB52,001,000 (2007: RMB52,001,000) and assets under construction of approximately RMB265,906,000 (2007: Nil) were pledged to secure general banking facilities granted to the Group (note 35).

14. Property, Plant and Equipment *(continued)*

At 31 December 2007, the Group was in the progress of obtaining the property ownership certificates of the Group's buildings with a net carrying amount of approximately RMB51,861,000 from the relevant government authorities. The aforementioned property ownership certificates had been obtained during the year.

15. Investment Properties

	Group 2008 RMB'000	2007 RMB'000
Carrying amount at 1 January	3,650,919	531,545
Transfer from land use rights (note 16)	–	169,956
Transfer from assets under construction (note 14)	–	712,493
Disposals	(80,950)	(51,595)
Net (loss)/profit from a fair value adjustment	(23,569)	2,288,520
Carrying amount at 31 December	3,546,400	3,650,919

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

The Group's investment properties were revalued on 31 December 2008 by CB Richard Ellis Limited, independent professionally qualified valuers, at approximately RMB3,546,400,000 (2007: RMB3,650,919,000) on an open market, existing use basis. Certain of the Group's investment properties are leased to third parties under operating lease, further summary details of which are included in note 36(a). The gross rental income received and receivable by the Group and the direct expenses in respect of these investment properties are summarised as follows:

	Group 2008 RMB'000	2007 RMB'000
Gross rental income	74,526	11,639
Direct expenses	(13,799)	(2,337)
Net rental income	60,727	9,302

At 31 December 2008, the Group's investment properties with a value of approximately RMB3,047,220,000 (2007: RMB3,153,739,000) were pledged to secure general banking facilities granted to the Group (note 35).

At 31 December 2007, the Group was in the progress of obtaining the property ownership certificates of the Group's investment properties with a net carrying amount of approximately RMB3,157,580,000 from the relevant government authorities. The aforementioned property ownership certificates have been obtained during the year.

Further particulars of the Group's major investment properties are included on page 111 of the annual report.

16. Land Use Rights

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	875,873	290,944
Additions	28,699	779,575
Amortisation recognised during the year	(3,304)	(263)
Reclassification	(348,012)	(24,427)
Transfer to investment properties (note 15)	–	(169,956)
At 31 December	553,256	875,873
Current portion included in prepayments, deposits and other receivables	(3,304)	(619)
Non-current portion	549,952	875,254

The Group's land use rights are located in the PRC and held under the lease terms of 10 to 50 years.

Certain of the Group's land use rights of approximately RMB79,548,000 (2007: RMB47,193,000) were pledged to banks to secure general banking facilities granted to the Group (note 35).

At the balance sheet date, the Group is in the progress of obtaining the land use right certificates of certain lands with an aggregate net carrying amount of approximately RMB266,762,000 (2007: RMB393,096,000) from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of the relevant land use rights grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration and late charges, if any, as stipulated in the relevant land use rights grant contracts.

17. Interests in Subsidiaries

	Company	
	2008	2007
	RMB'000	RMB'000
Unlisted shares, at cost	300,306	300,306
Due from subsidiaries	5,385,254	5,704,574
	5,685,560	6,004,880

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

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31 December 2008

17. Interests in Subsidiaries *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Happy Clear Consultants Limited	British Virgin Islands/ Hong Kong	US$1,000	100	–	Investment holding
Reach Luck Consultants Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Boom Faith International Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Rising Wave Enterprises Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Good Excel Enterprises Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Prime Way Enterprises Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Guangzhou Hejing Real Estate Development Limited*#	PRC	US$99,000,000	–	100	Property development
Guangzhou Hejing Meifu Real Estate Development Limited#	PRC	US$12,930,000	–	100	Property development
Guangzhou Hejing Yingfu Real Estate Development Limited#	PRC	RMB35,000,000	–	100	Property development
Guangzhou Xinhengchang Enterprise Development Limited*#	PRC	RMB792,000,000	–	100	Property development
Guangzhou Zhongtianying Real Estate Development Limited*#	PRC	US$198,000,000	–	100	Property development

17. Interests in Subsidiaries *(continued)*

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

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Tianjian Real Estate Development Limited*#	PRC	RMB1,485,000,000	–	100	Property development
Guangzhou Fuxin Property Management Limited*#	PRC	RMB7,000,000	–	100	Property management
Guangzhou Ningjun Property Management Limited*#	PRC	RMB7,000,000	–	100	Property management
Guangzhao Junzhao Property Operation Limited*#	PRC	RMB7,000,000	–	100	Property management
Chengdu Zhongtianying Real Estate Development Limited*#	PRC	RMB128,748,970	–	65	Property development
Guangzhou Liangyu Investment Limited ("Guangzhou Liangyu")#	PRC	RMB30,000,000	–	94.5	Property development
Hainan New World Property Development (HK) Limited ("Hainan New World")*#	PRC	HK$15,000,000	–	100	Property development
Suzhou Hejing Real Estate Development Limited#	PRC	RMB790,000,000	–	100	Property development
Guangzhou Conghua Hejing Real Estate Development Limited ("Guangzhou Conghua Hejing")*#^	PRC	US$71,936,224	–	100	Property development

17. Interests in Subsidiaries *(continued)*

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

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Hejing Real Estate Development Limited#^	PRC	RMB20,000,000	–	100	Property development
Chengdu Zhaojing Real Estate Development Limited*#	PRC	HK$767,000,000	–	100	Property development
Kunshan Baicheng Real Estate Development Limited*#	PRC	US$10,000,000	–	100	Property development

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

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

^ These companies were newly established during the year.

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

18. Interest in a Jointly-controlled Entity/Amount Due from a Jointly-controlled Entity

	Group 2008 RMB'000	2007 RMB'000
Share of net assets	**20,487**	3,905
Due from a jointly-controlled entity	**50,314**	29,001

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from the jointly-controlled entity approximates its fair value.

18. Interest in a Jointly-controlled Entity/Amount Due from a Jointly-controlled Entity *(continued)*

Particulars of the jointly-controlled entity are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Guangzhou Weibai Real Estate Development Limited	Paid-up capital of RMB20,100,000	PRC	50	50	50	Property development

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

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

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

	2008 RMB'000	2007 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	193,154	33,655
Current liabilities	(172,667)	(29,750)
Net assets	20,487	3,905
Share of the jointly-controlled entity's results:		
Revenue	57,644	–
Other income	264	50
	57,908	50
Total expenses	(38,868)	(86)
Tax	(8,458)	–
Profit/(loss) after tax	10,582	(36)

19. Long Term Prepayment

The Group's long term prepayment represented partial payment of a parcel of land in Guangzhou, Guangdong Province, the PRC. Pursuant to a joint venture agreement signed by the Group and another two joint venture partners, a joint venture company ("JV Co") is set up to undertake a property development project on the aforementioned parcel of land. The Group and the other two joint venture partners are entitled to equity interests in the JV Co in the respective proportions of 33.33%, 33.33% and 33.34%. As at 31 December 2008, the Group's capital injection into the JV Co had not been completed and the amount prepaid by the Group was recorded as a long term prepayment on the consolidated balance sheet.

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20. Properties Under Development

	Group	
	2008 RMB'000	2007 RMB'000
Properties under development expected to be recovered:		
Within one year	9,142,235	6,484,002
After more than one year	2,736,325	1,261,583
	11,878,560	7,745,585

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

Certain of the Group's properties under development of approximately RMB1,072,890,000 (2007: Nil) were pledged to secure general banking facilities granted to the Group (note 35).

Included in the Group's properties under development as at 31 December 2008 were land costs with an aggregate carrying amount of approximately RMB4,724,637,000 (2007: RMB5,771,813,000) in which the Group is in the progress of obtaining land use right certificates from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of the relevant land use rights grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration and late charges, if any, as stipulated in the relevant land use rights grant contracts.

Further particulars of the Group's major properties under development are set out on page 111 of the annual report.

21. Completed Properties Held for Sale

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

At 31 December 2008, certain of the Group's completed properties held for sale of approximately RMB273,533,000 (2007: RMB327,674,000), were pledged to secure general banking facilities granted to the Group (note 35).

Further particulars of the Group's major completed properties held for sale are set out on page 111 of the annual report.

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22. Trade Receivables

	Group 2008 RMB'000	2007 RMB'000
Trade receivables	30,713	34,620

Trade receivables consist of receivables from sale of properties and rental under operating leases. The payment terms of the sale of properties are stipulated in the relevant sale and purchase agreements. An ageing analysis of the trade receivables as at the respective balance sheet dates is as follows:

	Group 2008 RMB'000	2007 RMB'000
Within 3 months	20,643	30,103
4 to 6 months	2,010	4,127
7 to 12 months	7,280	390
Over 1 year	780	–
	30,713	34,620

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

	Group 2008 RMB'000	2007 RMB'000
Neither past due nor impaired	22,653	34,230
1 to 6 months past due	8,060	390
	30,713	34,620

The Group's trade receivables relate to a large number of diversified customers. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there was no recent history of default and the balances are still considered fully recoverable.

Notes to Financial Statements

31 December 2008

23. Prepayments, Deposits and Other Receivables

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	60,669	79,562	2	438
Deposits and other receivables (note)	1,008,818	655,851	2,070	6
	1,069,487	735,413	2,072	444

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

Note: As at 31 December 2008, included in the "Other receivables" balance of the Group was an advance to a joint venture partner of approximately RMB984,500,000 (2007: RMB500,000,000). Pursuant to a joint venture agreement signed by the Group and the aforementioned joint venture partner, a joint venture is set up to undertake a property development project in Zengcheng, Guangdong Province, the PRC, and the Group will hold a 51% equity interest in the joint venture. The fund was advanced to the joint venture partner for the payment of the land for the above property development project.

24. Taxes Recoverable/Taxes Payable

(a) Taxes recoverable

	Group	
	2008	2007
	RMB'000	RMB'000
Prepaid CIT	2,513	226
Prepaid LAT	803	1,574
	3,316	1,800

(b) Taxes payable

	Group	
	2008	2007
	RMB'000	RMB'000
CIT payable	239,353	536,948
LAT payable	772,936	612,223
	1,012,289	1,149,171

25. Cash and Cash Equivalents and Restricted Cash

		Group		Company	
		2008	2007	2008	2007
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances		1,362,378	3,316,753	52,480	8,008
Time deposits		10,573	119,239	8,895	119,239
		1,372,951	3,435,992	61,375	127,247
Less: Restricted cash	(a)	(205,942)	(147,353)	–	–
Cash and cash equivalents		1,167,009	3,288,639	61,375	127,247
Denominated in RMB	(b)	1,079,811	1,888,351	–	–
Denominated in other currencies		293,140	1,547,641	61,375	127,247
		1,372,951	3,435,992	61,375	127,247

Notes:

(a) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for construction of the relevant properties. As at 31 December 2008, such guarantee deposits amounted to approximately RMB205,942,000 (2007: RMB147,353,000).

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

26. Trade Payables

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

	Group	
	2008	2007
	RMB'000	RMB'000
Due within one year or on demand	2,879,007	3,437,982

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

27. Other Payables and Accruals

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits received and receipts in advance	803,682	784,013	–	–
Other payables and accruals	1,259,714	971,893	1,759	944
	2,063,396	1,755,906	1,759	944

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

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28. Interest-bearing Bank Loans

	Group					
	2008			2007		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	8.59	2009	179,241	5.67–7.02	2008	86,160
Bank loans – unsecured	5.67–6.80	2009	139,589	–	–	–
Current portion of long term bank loans						
– secured	5.95–8.69	2009	403,388	5.67–6.93	2008	118,680
– denominated in HK$, secured	HIBOR+1.15–HIBOR+3.50	2009	306,870	HIBOR+1.15	2008	70,228
– unsecured	7.18	2009	29,840	–	–	–
			1,058,928			275,068
Non-current						
Bank loans – secured	6.57–8.90	2010–2018	2,171,020	5.67–7.72	2009–2015	760,931
Bank loans						
– denominated in HK$, secured	HIBOR+1.15–HIBOR+1.25	2010–2014	608,539	HIBOR+1.15	2009–2014	727,473
Bank loans – unsecured	5.67–8.32	2010–2011	2,155,694	6.72–8.22	2009–2010	957,000
			4,935,253			2,445,404
			5,994,181			2,720,472

	Group	
	2008 RMB'000	2007 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**1,058,928**	275,068
In the second year	**2,067,765**	690,555
In the third to fifth years, inclusive	**2,683,941**	1,563,918
Beyond five years	**183,547**	190,931
	5,994,181	2,720,472

28. Interest-bearing Bank Loans *(continued)*

Certain of the Group's bank loans are secured by the Group's assets, details of which are disclosed in note 35.

Except for the above mentioned secured bank loans denominated in HK$, all bank loans were denominated in RMB as at the balance sheet date.

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

29. Deferred Tax

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

Deferred tax liabilities

Group

	2008				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Revaluation of investment properties RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2008	–	38,214	650,956	–	689,170
Deferred tax charged/(credited) to the income statement during the year (note 10)	11,017	–	(19,661)	17,389	8,745
Gross deferred tax liabilities at 31 December 2008	11,017	38,214	631,295	17,389	697,915

Deferred tax assets

Group

	2008				
	Depreciation in excess of related depreciation allowance RMB'000	Provision of LAT RMB'000	Losses available for offsetting against future taxable profits RMB'000	Accruals RMB'000	Total RMB'000
At 1 January 2008	–	161,885	–	–	161,885
Deferred tax credited to the income statement during the year (note 10)	215	49,398	14,023	14,143	77,779
Gross deferred tax assets at 31 December 2008	215	211,283	14,023	14,143	239,664
Net deferred tax recognised at 31 December 2008					(458,251)

29. Deferred Tax *(continued)*

Deferred tax liabilities
Group

	2007		
	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Revaluation of investment properties RMB'000	Total RMB'000
At 1 January 2007	–	116,127	116,127
Deferred tax charged to the income statement during the year (note 10)	–	534,829	534,829
Acquisition of a subsidiary (note 39)	38,214	–	38,214
Gross deferred tax liabilities at 31 December 2007	38,214	650,956	689,170

Deferred tax assets
Group

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

29. Deferred Tax *(continued)*

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

	Group	
	2008	2007
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated balance sheet	**168,453**	111,371
Net deferred tax liabilities recognised in the consolidated balance sheet	**(626,704)**	(638,656)
	(458,251)	(527,285)

The Group has unutilised tax losses of approximately RMB57,355,000 (2007: RMB23,038,000) that can be carried forward for five years for offsetting against future taxable profits of the entities in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses amounting to approximately RMB1,263,000 (2007: RMB23,038,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

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

30. Share Capital

Shares

	2008	2007
	RMB'000	RMB'000
Authorised: 8,000,000,000 (2007: 8,000,000,000) ordinary shares of HK$0.10 each	**786,113**	786,113
Issued and fully paid: 2,593,750,000 (2007: 2,593,750,000) ordinary shares of HK$0.10 each	**254,093**	254,093

30. Share Capital *(continued)*

A summary of the transactions in the Company's issued share capital is as follows:

	Number of ordinary shares	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2007	2,000	–	–	666,873	666,873
Capitalisation issue	1,874,998,000	187,500	184,241	(184,241)	–
Issue of shares in connection with the listing	718,750,000	71,875	69,852	5,015,374	5,085,226
	2,593,750,000	259,375	254,093	5,498,006	5,752,099
Share issue expenses	–	–	–	(176,075)	(176,075)
At 31 December 2007 and 2008	2,593,750,000	259,375	254,093	5,321,931	5,576,024

There were no movements in either the Company's anthorised or issued share capital during the year.

31. Share Option Scheme

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

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

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

31. Share Option Scheme *(continued)*

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

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

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

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

32. Reserves

(a) Group

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

Pursuant to the relevant laws and regulations in the PRC, the Group's subsidiaries which are registered in the PRC shall appropriate certain percentage of profit for the year (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds which are restricted as to use. During the year ended 31 December 2008, the Group appropriated approximately RMB39,001,000 to such reserve funds in accordance with relevant law and regulations in the PRC (2007: RMB94,705,000).

(b) Company

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2007		666,873	308,006	(12,791)	2,042	964,130
Capitalisation of share premium account	30	(184,241)	–	–	–	(184,241)
Issue of shares	30	5,015,374	–	–	–	5,015,374
Share issue expenses	30	(176,075)	–	–	–	(176,075)
Profit for the year		–	–	–	480,358	480,358
Exchange realignment		–	–	(221,513)	–	(221,513)
Proposed final 2007 dividend	12	–	–	–	(389,063)	(389,063)
At 31 December 2007		5,321,931	308,006	(234,304)	93,337	5,488,970
Profit for the year		–	–	–	321,485	321,485
Exchange realignment		–	–	(316,903)	–	(316,903)
Proposed final 2008 dividend	12	–	–	–	(77,813)	(77,813)
At 31 December 2008		5,321,931	308,006	(551,207)	337,009	5,415,739

32. Reserves *(continued)*

(b) Company *(continued)*

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

33. Interests in Jointly-controlled Operations

The Group has entered into three (2007: three) joint venture arrangements in the form of jointly-controlled operations with certain parties, to jointly undertake three (2007: three) property development projects located in Guangzhou, Guangdong Province, the PRC. As at 31 December 2008, the aggregate amounts of assets and liabilities recognised in respect of these jointly-controlled operations were as follows:

	Group	
	2008 RMB'000	2007 RMB'000
Assets	1,024,521	748,483
Liabilities	(57,576)	(8,562)

34. Contingent Liabilities

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

	Group	
	2008 RMB'000	2007 RMB'000
Guarantees in respect of mortgage facilities for certain purchasers of the Group's properties (note)	1,624,855	1,558,092

Note:

As at 31 December 2008 and 2007, the Group provided guarantees in respect of mortgage facilities granted by banks relating to the mortgage loans arranged for 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 the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled but not limited to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of property ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the board of directors consider that in case of default in payments, the net realisable value of the related properties will be sufficient to 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 years ended 31 December 2008 and 2007 for the guarantees.

34. Contingent Liabilities *(continued)*

(b) Pursuant to certain land use rights grant contracts entered into between the Group and the relevant PRC land bureau, the land use rights of certain land were contracted to be granted to the Group upon full payment of the land premium under the respective land use rights grant contracts. According to the terms of such land use rights grant contracts, if the delay in payment of the land premium is outstanding for more than a specified period, the relevant PRC land bureau may terminate the land use rights grant contracts, repossess the relevant land and may also claim for the compensation. The Group has applied to the relevant PRC land bureau for extension of the time limit for payment of the outstanding land premium. As at the date of this annual report, the Group has not received any notice from the relevant PRC land bureau which would indicate that it intends to terminate the land use rights grant contracts and seek the compensation. Based on the legal advice of the Company's PRC legal advisers, the directors of the Company are of the opinion that the land use rights grant contracts are still effective and as at 31 December 2008, no accrual for compensation has been made as the likelihood of such liability arising has been determined to be remote.

35. Pledge of Assets

(a) At each of the balance sheet dates, the following assets of the Group were pledged to certain banks to secure general banking facilities granted to the Group:

	Group	
	2008	2007
	RMB'000	RMB'000
Buildings	52,001	52,001
Assets under construction	265,906	–
Land use rights	79,548	47,193
Investment properties	3,047,220	3,153,739
Properties under development	1,072,890	–
Completed properties held for sale	273,533	327,674
	4,791,098	3,580,607

(b) At 31 December 2008, the equity interests of Guangzhou Conghua Hejing and Champ Joyment Limited, which are wholly-owned subsidiaries of the Group and incorporated in the PRC and Hong Kong, respectively, are pledged to certain banks for the loans granted to the Group.

36. Operating Lease Arrangements

(a) As lessor

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

Notes to Financial Statements

31 December 2008

36. Operating Lease Arrangements *(continued)*

(a) As lessor *(continued)*

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

	Group	
	2008	2007
	RMB'000	RMB'000
Within one year	**92,044**	36,960
In the second to fifth years, inclusive	**217,556**	102,649
After five years	**56,685**	31,334
	366,285	170,943

(b) As lessee

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

At 31 December 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,535**	1,010	**–**	639
In the second to fifth years, inclusive	**784**	–	**–**	–
	3,319	1,010	**–**	639

37. Commitments

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment – Assets under construction	**301,444**	237,701
Properties being developed by the Group for sale	**2,146,067**	865,207
Investment in a jointly-controlled entity	**898,930**	1,383,430
	3,346,441	2,486,338

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

38. Related Party Transactions

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

	Group	
	2008 RMB'000	2007 RMB'000
Interest charged by related companies (note)	–	245

Note: The interest was charged, with reference to the market rates, at interest rates of 6.14% to 7.34% per annum, for the year ended 31 December 2007.

(b) Outstanding balances with related parties:

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

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

	2008 RMB'000	2007 RMB'000
Short term employee benefits	12,305	6,997
Post-employment benefits	483	378
Total compensation paid to key management personnel	12,788	7,375

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

39. Acquisition of subsidiaries

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

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

Notes to Financial Statements

31 December 2008

39. Acquisition of subsidiaries *(continued)*

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

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

	RMB'000
Satisfied by cash	143,638
Outstanding amount payable	15,542
	159,180

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries during the year ended 31 December 2007 is as follows:

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

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

40. Financial Instruments by Category

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

Financial assets – Loan and receivables

	Group 2008 RMB'000	Group 2007 RMB'000
Trade receivables	**30,713**	34,620
Financial assets included in prepayments, deposits and other receivables (note 23)	**1,008,818**	655,851
Due from a jointly-controlled entity	**50,314**	29,001
Restricted cash	**205,942**	147,353
Cash and cash equivalents	**1,167,009**	3,288,639
	2,462,796	4,155,464

Financial liabilities – Financial liabilities at amortised cost

	Group 2008 RMB'000	Group 2007 RMB'000
Trade payables	**2,879,007**	3,437,982
Financial liabilities included in other payables and accruals (note 27)	**1,259,714**	971,893
Interest-bearing bank loans	**5,994,181**	2,720,472
	10,132,902	7,130,347

Financial assets – Loan and receivables

	Company 2008 RMB'000	Company 2007 RMB'000
Due from subsidiaries (note 17)	**5,385,254**	5,704,574
Financial assets included in prepayments, deposits and other receivables (note 23)	**2,070**	6
Cash and cash equivalents	**61,375**	127,247
	5,448,699	5,831,827

Financial liabilities – Financial liabilities at amortised cost

	Company 2008 RMB'000	Company 2007 RMB'000
Financial liabilities included in other payables and accruals (note 27)	**1,759**	944

41. Financial Risk Management Objectives and Policies

The financial assets of the Group mainly include cash and cash equivalents, restricted cash, trade receivables, deposits and other receivables and an amount due from a jointly-controlled entity. The financial liabilities of the Group mainly include trade payables, other payables and accruals and bank loans.

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

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

Business risk

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

Interest rate risk

The Group's exposure to changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its cash flow interest rate risk.

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

		Group	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2008			
RMB	200	(95,834)	–
Hong Kong dollar	200	(17,615)	–
RMB	(200)	95,834	–
Hong Kong dollar	(200)	17,615	–

41. Financial Risk Management Objectives and Policies *(continued)*

	Group		
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2007			
RMB	200	(37,737)	–
Hong Kong dollar	200	(15,954)	–
RMB	(200)	37,737	–
Hong Kong dollar	(200)	15,954	–

* Excluding retained profits

Foreign currency risk

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

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

	Group		
	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in profit before tax RMB'000
2008			
If RMB weakens against Hong Kong dollar	(5)	N/A	(38,300)
If RMB strengthens against Hong Kong dollar	5	N/A	38,300
If RMB weakens against United States dollar	N/A	(5)	7,186
If RMB strengthens against United States dollar	N/A	5	(7,186)

41. Financial Risk Management Objectives and Policies *(continued)*

Foreign currency risk *(continued)*

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

Credit risk

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

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

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligation of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 34(a).

Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents through the sales proceeds generating from the sale of the properties and having available funding through an adequate amount of credit facilities to meet the Group's construction commitments. The board of directors expected that the sales in 2009 will be higher than that of 2008 and additional bank loans will be available to finance the Group's existing and future property development projects. The Group has a number of alternative plans to mitigate the potential impacts on the Group's working capital should there be significant adverse changes in the economic environment. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.

41. Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk *(continued)*

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

Group

	2008					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	220,473	298,425	952,240	5,215,309	211,167	6,897,614
Trade payables	2,879,007	–	–	–	–	2,879,007
Other payables and accruals	1,259,714	–	–	–	–	1,259,714
	4,359,194	298,425	952,240	5,215,309	211,167	11,036,335

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

Company

	2008					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Other payables and accruals	1,759	–	–	–	–	1,759

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

41. Financial Risk Management Objectives and Policies *(continued)*

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 2007.

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

	Group	
	2008 RMB'000	2007 RMB'000
Net borrowings/(net cash)	4,621,230	(715,520)
Total equity	9,191,211	9,272,346
Gearing ratio	50.3%	(7.7)%*

* The Group was in a net cash position as at 31 December 2007.

42. Post Balance Sheet Event

On 12 March 2009, the joint venture between Prime Way Enterprises Limited, a wholly-owned subsidiary of the Group, and the investors with respect to the property development in Chengdu has been terminated by way of transfer back to the Company the Investor Shares for US$101,300,420.22. Details of the information were contained in the Company's announcement dated 12 March 2009.

43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 17 April 2009.

Project at a Glance

31 December 2008

Property	The Group's interest (%)	Location	Site area ('000 sq.m.)	Total GFA ('000 sq.m.)	Use	Stage of development	Expected date of completion
Major completed properties held for sale							
The Cosmos	100	Tianhe District, Guangzhou	23	166	Luxury residential	Completed	N/A
Sky Ville	100	Huadu District, Guangzhou	485	169	Townhouses and residential	Completed	N/A
Jinghu Garden	100	Huadu District, Guangzhou	52	195	Residential	Completed	N/A
Hui Feng	35	Tianhe District, Guangzhou	11	103	Residential	Completed	N/A
Major properties under development							
Waterfront Mansion	100	Conghua District, Guangzhou	228	299	Townhouses and residential	Under-development	2009
The Apex	100	Tianhe District, Guangzhou	23	161	Luxury residential, serviced apartments and hotel	Under-development	2009
City Island	100	Xiangcheng District, Suzhou	196	215	Townhouses and residential	Under-development	2009
Plot B/C Project	100	Xiangcheng District, Suzhou	348	788	Residential, hotel and office building	Under-development	2009
Chengdu Cosmos	65	South New District, Chengdu	187	873	Residential, serviced apartments, office building, hotel and shopping mall	Under-development	2009
The Vision of the World	100	Western High-Tech Zone, Chengdu	118	509	Residential	Under-development	2009
Shunyi Project (香悦四季)	100	Shunyi District, Beijing	455	490	Residential	Under-development	2010

Property	The Group's interest (%)	Use	Tenure
Major investment properties			
International Finance Place, Plot J-6, Pearl River New Town, Tianhe District, Guangzhou City, Guangdong Province, the PRC	100	Office building and retail shops	Medium term lease

Five Year Financial Summary

Consolidated Results

	Year ended 31 December				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008 RMB'000**
Revenue	544,962	437,748	654,632	3,868,136	**1,574,214**
Profit before tax	190,920	231,521	279,136	4,320,598	**703,278**
Tax	(62,517)	(98,526)	(121,980)	(1,637,788)	**(337,108)**
Profit for the year	128,403	132,995	157,156	2,682,810	**366,170**
Attributable to:					
Equity holders of the parent	128,403	132,995	157,156	2,683,055	**368,532**
Minority interests	–	–	–	(245)	**(2,362)**
	128,403	132,995	157,156	2,682,810	**366,170**
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	N/A	N/A	RMB9 cents	RMB120 cents	**RMB14 cents**

Consolidated Assets, Liabilities and Equity

	As at 31 December				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008 RMB'000**
ASSETS					
Non-current assets	613,495	949,589	1,415,604	5,802,493	**5,827,043**
Current assets	1,297,981	1,895,037	2,990,730	13,172,040	**15,939,745**
Total assets	1,911,476	2,844,626	4,406,334	18,974,533	**21,766,788**
LIABILITIES					
Current liabilities	1,023,455	1,306,481	2,112,422	6,618,127	**7,013,620**
Non-current liabilities	511,741	928,870	1,306,885	3,084,060	**5,561,957**
Total liabilities	1,535,196	2,235,351	3,419,307	9,702,187	**12,575,577**
EQUITY					
Equity attributable to equity holders of the parent	376,280	609,275	987,027	8,533,683	**8,468,703**
Minority interests	–	–	–	738,663	**722,508**
Total equity	376,280	609,275	987,027	9,272,346	**9,191,211**

The consolidated results of the Group for the years ended 31 December 2007 and 2008 and the consolidated assets, liabilities and equity of the Group as at 31 December 2007 and 2008 are those set out in the audited financial statements.

The summary of the consolidated results of the Group for each of the three years ended 31 December 2004, 2005 and 2006 and of the assets, liabilities and equity as at 31 December 2004, 2005 and 2006 have been extracted from the Prospectus issued on 18 June 2007 in connection with the listing of the Company's shares on 3 July 2007.