天譽置業（控股）有限公司
SKYFAME REALTY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 00059)

AN ARTIST'S IMPRESSION OF THE GUIYANG PROJECT

Annual Report **2008**

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Yu Pan *(Chairman)*
Lau Yat Tung, Derrick *(Deputy Chairman)*
Wong Lok

Non-executive Director

Jerry Wu

Independent Non-executive Directors

Choy Shu Kwan
Cheng Wing Keung, Raymond
Chung Lai Fong

COMPANY SECRETARY

Cheung Lin Shun

AUDIT COMMITTEE

Choy Shu Kwan *(Chairman)*
Cheng Wing Keung, Raymond
Chung Lai Fong

REMUNERATION COMMITTEE

Chung Lai Fong *(Chairman)*
Choy Shu Kwan
Cheng Wing Keung, Raymond
Yu Pan

NOMINATION COMMITTEE

Yu Pan *(Chairman)*
Choy Shu Kwan
Lau Yat Tung, Derrick
Wong Lok

SHARE LISTING

Main Board of The Stock Exchange of Hong Kong Limited, Stock Code: 00059

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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18 Harcourt Road, Hong Kong
Telephone: (852) 2111 2259
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REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11, Bermuda

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Abacus Limited
26th Floor Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China Limited

AUDITORS

BDO McCabe Lo Limited
Certified Public Accountants

LEGAL ADVISERS

Hong Kong Laws

Vincent T.K. Cheung, Yap & Co.

Bermuda Laws

Conyers Dill & Pearman

CHAIRMAN'S STATEMENT

Since the completion of a series of acquisitions in 2007, the Group has successfully became a property developer in the top notch properties that succeeded the track records of its controlling shareholder, Mr Yu Pan, in Guangzhou, the PRC. Also succeeded is the business strategies and corporate mission. We will continue to be prudent in our development plans and concentrate on the pursuit at reasonable timing of prime sites to enlarge and enrich its land bank in Guangzhou and other Chinese cities with strong growth potential.

Following the unprecedented year in 2008, the aftermath of the global economic crisis and market meltdown is yet due to come. The impacts on the Chinese economy are extensive covering all industries including real estate. All types of properties have drastic downturn in prices and trade volumes. Despite the various policies imposed by the Chinese government to stimulate the economy, the outlook of the property market is still blurred. The management anticipated some further downward adjustments in the mainland market in the coming one or two years. Whilst in the longer run, however, the strong basic fundamental demand for domestic housing will still be a key driver to push for quick recovery in the property market amongst the other economic sectors.

The worldwide economic turmoil hits the industry in Guangzhou in the start of 2009. Whilst the performance of the hotel operation of our Westin Guangzhou only being modestly affected in occupancy due to its quality and stature in the first quarter of the year, albeit the first quarter is traditionally a low season, we have also experienced a slight contraction in the Group's leasing operation, both in terms of occupancy and rent rates. Given the very challenging market conditions in the years to go, we have entrusted our sustainability on the implementation of key conservative business strategies. These include continuing cost containment measures by keeping a slim but effective work force and lowering the gearing level. In improving the gearing position, the management have had continuous negotiations with the convertible noteholders about a debt restructuring program targeting to reduce the Group's borrowing whilst at the same time generating additional cash by promoting the presale activities in the Group's residential project being under construction in Guiyang and realisation of certain property interests in the Group's property portfolio. The restructuring program, if implemented, will put the Company in a better place to confront with the current and upcoming challenges.

Finally, in the midst of such uncertain times, I would like to reiterate that the biggest protection we have is our genuine commitment to product quality based on the decade-long focus of high-end properties in Guangzhou, and through investing in our people, we adhere to the motto of "Steadiness, Prudence and Service" thanks to the loyalty of our high caliber team. Owing to all these, I would end my message with my appreciation to all the members of the "Skyfame" team for their contributions in the past year.

Yu Pan
Chairman

Hong Kong, 17 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review

During the year ended 31 December 2008, the Group recorded a total turnover of HK$565 million (2007: HK$126 million), representing a 4.5 times of that in the last year. The increase in turnover was contributed by revenue from hotel operation of HK$255 million (2007: HK$102 million) which represents operating result for the first full calendar year since the grand opening of the Westin Hotel Guangzhou in October 2007, and the sales of approximately 9,000 sq.m. of the floor area of office spaces in Skyfame Tower which was completed in late 2007, giving rise to sale revenue of HK$257 million (2007: HK$0.5 million).

The operation turned to be profitable in the year as a result of the growing turnover and the operating costs which became stabilised. The segment results after deduction of corporate operating expenses was a profit of HK$31 million (2007: loss of HK$84 million) after depreciation and amortisation of lease premium of HK$99 million (2007: HK$50 million) charged mainly for the hotel operation.

Finance costs, consisting of effective interests amortised on convertible notes (the "Notes"), interests paid to banks and financial institutions on borrowings, so far not capitalised as development costs, amount to HK$190 million (2007: HK$80 million). Due to adjustment in property prices in the year led by the PRC central government's austerity measures, the Group records revaluation losses of HK$119 million (2007: HK$23 million), with associated income tax credit of HK$30 million (2007: HK$6 million), and write down of goodwill of HK$67 million (2007: HK$Nil). However, the decrease in fair value of financial derivative embedded in the Notes as induced by the sharp declines in the prices of the Company's shares during the year against which the valuation was benchmarked leads to an exceptional gain of HK$977 million (2007: HK$268 million) for the year. The outstanding face value of the Notes is US$192 million (2007: US$194 million) (equivalent to approximately HK$1,500 million) whilst the carrying value of the Notes, in aggregate of the liability and financial derivative components, is HK$399 million (2007: HK$1,294 million) as shown on the consolidated balance sheet. All these factors combine to a profit attributable to shareholders of HK$685 million (2007: HK$209 million) for the year.

Since the completion of various acquisitions in 2007, the Group has completely reformed to a property developer in the mainland China. The Group's revenue now comprises primarily revenue from hotel operation and rental income from leasing of investment properties and sale of developed properties.

Hotel Operation

The Group gained encouraging operating results from the operation of its signature property, the Westin Guangzhou. Being the best performer in the hotel industry in Guangzhou City in both the room rates and occupancy in 2008 due to its prominent location, it is expected that the property continues to contribute stable and promising profits to the Group.

Investment and Sale of Completed Properties

Completed in late 2007, Skyfame Tower, an office tower annexed to the hotel tower where the Westin Guangzhou situates, adds unsold above-the-ground area of approximately 32,000 sq.m. for offices and 9,000 sq.m. for commercial podium to the Group's property portfolio available for sale or leasing. The office tower is currently approximately 78% tenanted with mostly multinational corporations with tenancies at an average monthly rental of RMB164 per sq.m. and with common lease period of 3 years. The Group also receives stable rental income from the leasing of approximately 20,000 sq.m. commercial podium at Tianyu Garden Phase 2, which is located adjacent to Skyfame Tower. The property is now 63% occupied, tenanted with renowned corporations and the US consulate with lease periods ranging from 1 to 10 years.

Properties Held for/under Development

Guiyang Project

The Group acquired the land interest in January 2008, through a subsidiary of which the Group holds a 55% stake, in a public tender which is being developed into a residential development in the edge of the centre district of Guiyang, the provincial capital of Guizhou Province. The development, consisting of high-end residential apartments of a total GFA of approximately 480,000 sq.m. and full range of one-stop comprehensive community facilities, offers beautiful hill view and natural beauty near the municipal forest park and reservoir. The first phase of the development for GFA of approximately 90,000 sq.m. has been put onto the market in the second quarter of 2009. Pre-marketing activities for pre-sale recently launched receive positive market feedbacks.

Zhoutouzui Project

The management has obtained during the year the approval from the Planning Authority in Guangzhou on the revised parameters of the development based on the new delineation of site boundary of the land. The Group is going through administrative procedures in connection with the transfer of the land use right certificate to the project company whilst at the same time in preparatory procedures for other permits leading to the commencement of construction that is planned to take place in late 2009. The project, a high-rise riverfront luxury residential development in the centre district of Guangzhou City, with a GFA of approximately 212,000 sq.m., will become the Group's leading project in the coming years.

Tianhe Project

The project is a mixed development of office and serviced apartments with a GFA of approximately 84,000 sq.m. situated in the business hub at Tianhe, Guangzhou. With the intention to increase liquidity resources for working capital and satisfy the commitments to repay a term loan of HK$220 million (the "Term Loan") and payable to the noteholders if required. The Group is currently in close negotiations with two interested parties about the disposal of certain equity interest in Yaubond Limited (the "Tianhe Disposal").

Going Concern

Background

The Group is exposed to two non-compliances with the terms in a trust deed entered into between the convertible note holders and the Company caused by a subsidiary not yet been able to obtain the land use right certificate and other permits in respect of the Zhoutouzui Project by 31 March 2009, and a loan agreement entered into between the lenders and a subsidiary of the Company for the Term Loan which was already due to be repaid on 29 January 2009.

The Company has reached an agreement with the convertible noteholders for an extension to meet with the timeline to 31 May 2009 in obtaining the title deeds and permits in relation to the Zhoutouzui project, failing which, the noteholders are entitled to an early redemption of the Notes of US$75 million in principal and accrued interests (the "Automatic Redemption").

The lenders of the Term Loan and the convertible noteholders have given consents to certain standstill arrangements to refrain from taking legal actions against the Company and its subsidiaries before the expiry of the standstill periods subject to respectively the completion of the Tianhe Disposal and the reaching of some restructured terms of the Notes which, the directors of the Company (the "Directors") expect, will lead to relaxation of certain conditions on the timelines of redemption terms and conditions of the Notes on or before 31 May 2009. On the date of the report, the Company is in negotiations with the convertible noteholders about the restructuring of the Notes and no concrete terms have been reached. The Tianhe Disposal is in documentation stage and yet pending completion.

MANAGEMENT DISCUSSION AND ANALYSIS

Key assumptions of the cashflow projection

The financial statements are prepared using the going concern basis, a fundamental accounting concept adopted in the presentation of the financial statements. The Directors considered carefully that the business of the Group is a going concern after having considered the assumptions and qualifications, listed as follows, that have material effects on the projections covering the next eighteen months since the balance sheet date:

(1) Major aspects of the economic environment that may affect significantly the accuracy of the projections, and their effects on those key performance parameters, i.e. the occupancy and room rates of the hotel industry, sale prices and rent rates for offices in Guangzhou and residential units in Guiyang that are being pre-sold.

(2) Outflow of cash cover all known liabilities and commitments at the balance sheet date and those future commitments based on the business plans prepared in the best estimates of the management in the light of the development progress of its projects. The operating cash inflows from the hotel and leasing operations can sufficiently support the routine running costs of the Group, project loan interests and amortisation of loans in accordance with the existing relevant loan documents entered into with commercial banks.

(3) New banking facilities for additional working capital are made available to the Group in the appropriate timing to keep pace with its work progress in the Zhoutouzui and Guiyang Projects. Reasonable assumptions have also been made that the Group can provide acceptable collaterals to the lenders for banking facilities that are sufficient to meet the working capital requirement of the Group under the prevailing market situation.

(4) To test the possible impacts of cash positions brought about by key risk factors, sensitivity analysis were conducted to highlight any shortfalls in cash caused by possible fluctuations in sales prices, rent rates for office and retail properties, daily room rates and occupancy rates for hotel, interest rates and adverse adjustments in property value that may lead to breaches of loan agreements in financial covenants on leverage level.

(5) Assets can be realised to provide for sufficient funding to remedy the potential claims from the lenders of the Term Loan and the Automatic Redemption, should there be no restructuring plan be reached with the noteholders. The Tianhe Disposal can be completed on schedule in late May 2009 when the failure to repay the Term Loan will be then remedied and the Automatic Redemption also be partially satisfied. Taking in the prevailing market circumstances and the responses of the noteholders, the Directors have reasonable beliefs that the debt rescheduling plan can be worked out with revised terms to relax the terms and conditions of the Notes in the interest of the Company and the proposed asset realisation plan be crystallised hence avoiding any potential legal claim against the Company.

The Directors have considered the results of the review procedures they have taken. They have a reasonable expectation that the Group will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements.

Outlook

In the midst of the financial crisis spread out last year, the global economy has not been bottomed out and shows no sign of turning up. In the gloomy winter when recovery is yet to be expected, the property market in the PRC is in downturn, both in prices and trade volumes. The management anticipated some further setbacks in the mainland market in a short run, whilst in the longer run, the strong basic demand for domestic housing will still be a key driver to push for a quick recovery in the dawn. Whilst maintaining a positive attitude towards the prospect, the Group remains conservative in its development plans and will closely manage its existing projects to keep a progressive pace in the challenging and dynamic environment.

LIQUIDITY AND FINANCIAL RESOURCES

Capital Structure and Liquidity

To provide for financing in the acquisitions of development projects in 2007, the Company raised funds by an issue of US$200 million Notes to several financial institutions. The Notes, bearing a coupon interest rate of 4% per annum and maturing at an annualised yield of 15% in 2013, are convertible for ordinary shares of the Company at a reset conversion price of HK$1 per share. The principal value of the Notes outstanding at the balance sheet date was approximately HK$1,500 million (US$192 million). As a reflection of the drop in share prices of the Company in the year, the financial derivative embedded in the Notes was revalued at HK$93 million and the Notes liabilities were amortised at carrying cost of HK$306 million at the balance sheet date. In addition to the Notes, the Group is indebted to two financial institutions for HK$220 million of the Term Loan for financing the acquisition of a 51% interest in the Tianhe Project in 2007.

At the balance sheet date, the Group's total liabilities, consisting mainly of the Notes, mortgage loans from commercial banks, the Term Loan, liabilities associated with assets classified as held for sale, advance from a minority shareholder of a subsidiary, deferred tax liabilities and development costs payable, amounted to HK$2,714 million (2007: HK$3,260 million). The decrease as compared with the previous year was due to the decline in fair value of the Notes. Notwithstanding this and other than an additional mortgage loan of RMB100 million from a commercial bank in the PRC, there has not been material change in borrowing since last year.

Led by the financial crisis, there had been unexpected drastic changes in the fundamentals in the global capital markets which freeze the liquidity in the markets. On requests for early redemption of the Notes raised by certain noteholders and considering the possible discount on redemption enjoyed by early redemption, the management has been in discussions with the noteholders about debt restructuring plans to facilitate early redemption of the Notes, partially or in full, that may involve realisation of certain assets of the Group. On the date of the report, except for the negotiation about the sale of the Tianhe Project, no other concrete plans of asset realisation have come up nor has there been any redemption of the Notes. Had there been an agreement reached amongst the noteholders for, assuming, full redemption at the outstanding principal value of the Notes on the balance sheet date, the financial derivatives embedded in the Notes together with its liability component will be stated as the principal value of HK$1,500 million (US$192 million) and thus the Group's total liabilities will be accordingly restated at HK$3,814 million.

MANAGEMENT DISCUSSION AND ANALYSIS

The gearing ratios, based on the net debt (represented by bank and other borrowings, the Term Loan, the Notes and financial derivative liabilities, loan from minority shareholder and long-term other payable net of cash and bank balances) to the equity attributable to equity holders plus net debt at the balance sheet dates of the year 2008 and 2007 are 44% and 59% respectively. The reduced gearing ratio is explained by the devaluation in the fair value of the financial derivative liabilities. Assuming a restatement of the note payable to the principal value in the light of an outcome of the discussion with the noteholders on a debt rescheduling plan, the gearing ratio at balance sheet date will become 55%. To improve the potential surged gearing, the Group has been working on feasible plans to realise assets to reduce the gearing level.

The acquisition of the Guiyang Project has utilised some US$30 million cash in the account escrowed by the noteholders, cash balance of the Group decreased but due to the reclassification from non-current assets and non-current liabilities attributable to Tianhe Project, which is determined to be disposed of, to current assets and liabilities, as a result, the current ratio was slightly improved to 3.1 (31 December 2007: 3.0). Current assets and current liabilities of the Group were HK$2,043 million and HK$661 million respectively on 31 December 2008.

Borrowings and Pledge of Assets

Cash in accounts totaling HK$68 million (2007: HK$359 million) was restricted for the payment of interests to noteholders and lenders of the Term Loan. Apart from the escrowed money, shares of certain intermediate holding companies of the property developing subsidiaries of the Group were charged in favor of a security trustee acting for the noteholders and the lenders of the Term Loan. To secure for banking facilities in the total of RMB1,011 million granted to some operating subsidiaries for working capital by two commercial banks in the mainland China, mortgages of property interests in The Westin Guangzhou, Skyfame Tower and Tianyu Garden Phase 2 were made in favour of the banks. On 31 December 2008, other than the Notes, bank and other borrowings in an aggregate amount of HK$1,323 million (2007: HK$1,183 million) were outstanding of which HK$280 million (2007: HK$243 million), including the Term Loan, are due within one year.

FOREIGN CURRENCY MANAGEMENT

The Group is principally engaged in property development activities which are all conducted in the PRC and denominated in Renminbi ("RMB"), the functional currency of the Company's principal subsidiaries. At the same time, certain financing activities of the Group are denominated in other currencies, such as the Notes in US dollars and the Term Loan in HK dollars.

Due to the appreciation of RMB against HK and US dollars during the year, a foreign exchange reserve surplus of HK$187 million arises from the consolidation of the assets and liabilities of the PRC subsidiaries. The surplus adds to the equity attributable to shareholders of the Company. Since both of the US and HK dollars are pegged whilst RMB moves within narrow extents with the US and HK dollars, the Group foresees no significant foreign currency exposure in the near future. Further, the Group foresees rises in the exchange rates of RMB against HK dollars in the foreseeable future, such fluctuations will not have unfavourable effect on the financial position of the Group. For these reasons, the Group does not hedge against its foreign currency risk. However, any permanent or significant changes in the exchange rates in RMB for HK and US dollars and in the peg system of US dollars with HK dollars may have possible impact on the Group's results and financial position.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2008.

MATERIAL ACQUISITION DURING THE YEAR

In January 2008, the Group formed a subsidiary with a third party,貴州協輝房地產開發有限公司(Guizhou Xiehui Property Development Company Limited) in which 55% equity interest was held by the Group, which acquired a piece of land located in Guiyang City, Guizhou Province, the PRC through an open tender on 11 January 2008. The total cost of the land is approximately HK$629 million (RMB555 million). The contribution into the subsidiary was partly financed by cash of US$30 million released from an escrow account and a short term advance from a third party for the remaining which was paid down to HK$32 million at the balance sheet date.

EMPLOYEES

To keep pace with the growth of the Group after the acquisitions of projects, the Group recruits suitable staff in capable caliber. As at 31 December 2008, other than the Executive Directors, the Group employed 700 staff of which 569 were for hotel operation and 131 for property development and central management. During the year, total staff costs were HK$78 million, which is a 50% rise from last year as a result of the increased headcount and new remuneration policies in the PRC subsidiaries revamping the pay scales that commensurate with skills and talents of staff. Of the total staff costs, HK$6 million was capitalised as property development costs. Employees are remunerated according to qualifications and experience, job nature and performance. Remuneration packages are aligned with job markets in the business territories.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yu Pan *(Chairman)*

Aged 44, has over 19 years of experience in the development high-end residential, commercial and hotel projects in the PRC. Mr. Yu is a founder of the prestigious real estate company – Guangzhou Tianyu Real Estate Development Company Limited. He oversees the strategic planning and corporate development of the Group.

Mr. Lau Yat Tung, Derrick *(Deputy Chairman)*

Aged 44, holds a Master degree in Business Administration awarded by The Northeast Louisiana University in the USA. Mr. Lau has over 15 years of working experience in the senior management of corporations engaged in property agency and development in Hong Kong and the PRC.

Mr. Wong Lok

Aged 51, has over 23 years of working experience in senior management of corporations engaged in property and general trading in Hong Kong and the PRC.

NON-EXECUTIVE DIRECTOR

Mr. Jerry Wu

Aged 40, holds a Master of Business Administration (Finance) from The Wharton School, University of Pennsylvania; Master of Science and Bachelor of Science in Electrical Engineering from Stanford University. Mr. Wu has over 12 years of experience in corporate finance, strategic advisory and equity investments. He is a director of Grand River Investments Limited, based in Shanghai.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Choy Shu Kwan

Aged 54, holds a Master degree in Business Administration and has over 27 years of extensive experience in banking and investment management. Mr. Choy worked for the CITIC group for 20 years in Hong Kong and before his resignation in 2007, he was the managing director of CITIC Capital Markets Limited. He is also an independent non-executive director of Poly (Hong Kong) Investments Limited.

Mr. Cheng Wing Keung, Raymond

Aged 49, is a practising solicitor in Hong Kong. Mr. Cheng holds a honours degree in laws in The University of London and a Master degree of Business Administration awarded by The University of Strathclyde, Scotland. Mr. Cheng also holds a Diploma in Chinese Professional Laws in the Chinese University of Political Science and Law, PRC. Mr. Cheng has over 21 years of experience in corporate, company secretarial and listing affairs. At present, Mr. Cheng is an independent non-executive director in three other listed companies in Hong Kong, namely China Investment Fund Company Limited, Emperor Capital Group Limited and Sino Resources Group Limited.

Ms. Chung Lai Fong

Aged 41, is a practising barrister in Hong Kong. Ms. Chung holds a Bachelor of Laws (Honours) degree, a Bachelor of Arts (Honours) Degree in Accountancy and a Master of Laws in Chinese Law. She is also a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators (UK) and the Hong Kong Institute of Chartered Secretaries. She has over 13 years of professional experience in accounting, taxation, administration, company secretarial and corporate development.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Ms. Cheung Lin Shun

Aged 46, is a professional qualified accountant in Hong Kong and is in charge of the financial, accounting and company secretarial matters at the corporate level of the Group. Ms. Cheung holds a Master degree in Professional Accountancy awarded by The Hong Kong Polytechnic University. Ms. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. She has over 23 years of experience in auditing, corporate secretarial, accounting and corporate finance in an international accounting firm and a number of listed companies in Hong Kong.

SENIOR MANAGEMENT

Mr. Wen Xiao Bing

Aged 40, is the Managing Director in charge of overall management of the property development and investment business in the PRC. He holds a Bachelor Degree in History from Beijing University and is a professional qualified economist specialised in labor economics in the PRC. Mr. Wen has over 18 years of working experience in managerial positions in corporations in the PRC.

Mr. Chan Tung Ngok, Tony

Aged 53, is the General Manager in Investment and Corporate Communication for the Group. Mr. Chan holds a Master Degree of Business Administration from Asia International Open University (Macau). He is a fellow member of the Royal Institution of Chartered Surveyors in the United Kingdom and a fellow member of The Hong Kong Institute of Surveyors. Mr. Chan has over 28 years of experience in professional real estate service with extensive experience in the valuation and marketing of property development projects in Hong Kong and the major cities of the PRC. Mr. Chan had held senior positions in Lands Department of the Government of Hong Kong Special Administrative Region of the PRC, HSBC, Midland Holdings Limited and surveying practices.

Mr. Lin Sheng Jie

Aged 43, is the Assistant Managing Director in charge of all general administration and finance operations in the PRC. Mr. Lin was a graduate in finance and accountancy of Guangdong University of Business Studies and has over 18 years of working experience in the finance and accounting in property development, finance and hotel investment in the PRC, Thailand and Hong Kong.

Mr. Li Le Wei

Aged 52, is the Assistant Managing Director in charge of all property development operations in the PRC. Mr. Li graduated from the Guangdong Radio & TV University and has over 21 years of working experience in hotel and property management in Guangzhou.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasising transparency, independence, accountability, responsibility and fairness. The Company exercises corporate governance through the Board of Directors (the "Board") and various committees with designated functions. The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2008.

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2008 financial statements, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except for code provision A2.1, where the roles of chairman and chief executive officer of the Company is not separated as required but is currently performed by the same individual.

DIRECTORS' SECURITIES TRANSACTIONS

Other than the governance through the Board and the committees, the Company has adopted the code of conduct regarding the Directors' securities transactions in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

As at 31 December 2008, the Board comprised seven Directors as follows:

Executive Directors

Mr. Yu Pan *(Chairman)*
Mr. Lau Yat Tung, Derrick *(Deputy Chairman)*
Mr. Wong Lok

Non-executive Director

Mr. Jerry Wu

Independent Non-executive Directors

Mr. Choy Shu Kwan
Mr. Cheng Wing Keung, Raymond
Ms. Chung Lai Fong

* *Mr. Wen Xiao Bing resigned as the Executive Director with effect from 23 December 2008.*

BOARD OF DIRECTORS *(Continued)*

The Board held four meetings in 2008. The record of attendance of each Director is as follows:

Name of Director	Number of Board Meetings Attended
Executive Directors	
Mr. Yu Pan *(Chairman)*	4/4
Mr. Lau Yat Tung, Derrick *(Deputy Chairman)*	4/4
Mr. Wong Lok	2/4
Mr. Wen Xiao Bing *(resigned on 23 December 2008)*	4/4
Non-executive Director	
Mr. Jerry Wu	4/4
Independent Non-executive Directors	
Mr. Choy Shu Kwan	4/4
Mr. Cheng Wing Keung, Raymond	4/4
Ms. Chung Lai Fong	4/4

The Board is responsible for formulating and reviewing of the long-term business directions and strategies, and monitoring the operating and financial performance of the Group. Management is delegated by the Board with the authority to make decisions on daily operations. Both the Directors and management interacted frequently to ensure efficient communications between the parties.

The terms of reference of the Board has been published on the Company's website.

To the best knowledge of the Company, there is no financial, business and family relationship among members of the Board and between the Chairman and the Deputy Chairman.

The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In pace with the business development and growth of the Group, the Group currently maintains a small but efficient staff force in the daily operations of the property development business. Due to the small size of the management team, both the roles of the Chairman and Chief Executive Officer of the Company are currently played by Mr. Yu Pan. The Board considers the currently simple but efficient management team serves sufficiently enough the need of the Group. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the management team to ensure a proper balance of power and authority within the Company.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee comprises four Directors: the Chairman, Mr. Yu Pan and all three Independent Non-executive Directors, namely, Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong (Chairman of the Committee).

The Remuneration Committee held two meetings in 2008 to (i) approve 2007 annual bonus of all Directors and staff; (ii) review and approve the 2009 remuneration policy; and (iii) discuss the setting up of the staff performance appraisal system. The record of attendance of its members is as follows:

Name of Director	Number of Remuneration Committee Meetings Attended
Ms. Chung Lai Fong	2/2
Mr. Choy Shu Kwan	2/2
Mr. Cheng Wing Keung, Raymond	2/2
Mr. Yu Pan	2/2

The major roles and functions of the Remuneration Committee are as follows:

1. to make recommendations to the Board on the remuneration policy and structure of the Board, all committees members and senior management;

2. to determine the remuneration packages of the Directors, all committee members and senior management. The remuneration packages include basic salary, annual bonus, retirement and compensation packages;

3. to review and approve the compensation to Executive Directors and senior management on termination or dismissal;

4. to review and approve the performance target, appraisal system, remuneration terms and conditions, amount and distribution basis of the annual bonus; and

5. to review the expenses reimbursement policy.

The terms of reference of the Remuneration Committee has been published on the Company's website.

NOMINATION COMMITTEE

The Nomination Committee comprises three Executive Directors, namely, Mr. Yu Pan (Chairman of the Committee), Mr. Lau Yat Tung, Derrick, Mr. Wong Lok, and one Independent Non-executive Director, Mr. Choy Shu Kwan.

The Nomination Committee held one meeting on 12 December 2008 to (i) review the service contracts of all the Directors; (ii) recommend the retiring Directors for re-election in 2009 Annual General Meeting; and (iii) discuss the division of work amongst the Directors. All the members attended the meeting.

NOMINATION COMMITTEE *(Continued)*

The major roles and functions of the Nomination Committee are as follows:

1. to propose the basic requirements and objective entry standard for Directors;

2. to review and approve the selection, nomination and appointment procedures for Directors, all committee members and senior management;

3. to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board in all such aspects;

4. to ensure the fixed employment period for the Directors and fulfillment of the re-election requirements set under the bye-laws of the Company and related regulatory bodies;

5. to assess the independence of Independent Non-executive Directors; and

6. to review and approve the part-time policy for the Directors and senior management; and oversee the establishment of appropriate succession planning for Directors in particular the chairman and the chief executive officer.

During the year, minor amendment in relation to the frequency of meeting has been made to the terms of reference of the Nomination Committee and the revised version has been published on the Company's website.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors, Mr. Choy Shu Kwan (Chairman of the Committee), Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.

The Audit Committee held two meetings in 2008 to (i) review the financial statements before submission to the Board; (ii) consider the findings disclosed in the interim and annual internal audit reports; and (iii) review the Group's system of internal control. All members attended both meetings. The external auditor was present at the meeting held on 11 April 2008 to provide the committee members with their findings on the audit for the year ended 31 December 2007. The record of attendance of its members is as follows:

Name of Director	**Number of Audit Committee Meetings Attended**
Mr. Choy Shu Kwan	2/2
Mr. Cheng Wing Keung, Raymond	2/2
Ms. Chung Lai Fong	2/2

AUDIT COMMITTEE *(Continued)*

The major roles and functions of audit committee are as follows:

1. to review the integrity of accounts and financial reporting process;

2. to review and oversee the effectiveness of internal control systems;

3. to appoint external auditors and assess their qualifications, independence and performance; and

4. to review periodically the Company's and the Group's accounts to comply with applicable accounting standards, legal and regulatory requirements on financial disclosures.

The Audit Committee has reviewed the interim results for the six months ended 30 June 2008 and the annual results for the year ended 31 December 2008.

AUDITORS' REMUNERATION

Messrs. BDO McCabe Lo Limited was re-appointed by the shareholders as the Company's auditor during 2008. Their engagement of the audit for 2008 has been reviewed and approved by the Audit Committee.

During the year under review, the remuneration paid to the Company's auditor is set out as follows:

Nature of service	**Fees paid** *(HK$)*
Audit services for 2008	950,000
Non-audit services	391,100
TOTAL	1,341,100

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. The members of the Board and the committees and the external auditor are present to answer shareholders' questions in each meeting. A meeting circular is distributed to all shareholders before the annual general meeting and special general meetings in accordance with the timeline requirement as laid down in the Listing Rules. It sets out the procedures for demanding and conducting a poll at the shareholders' meeting and voting intention of proxies. The results of the poll will be published in the Stock Exchange's and Company's websites.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner well before the time limits as laid down in the Listing Rules.

The 2009 annual general meeting will be held at Luk Kwok Hotel, Basement, Falcon Room I, 72 Gloucester Road, Wanchai, Hong Kong on Monday, 8 June 2009 at 11:00 a.m..

INTERNAL CONTROLS

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

The internal auditor reported to the Executive Directors with findings on regular audits and recommendations on the effectiveness of the controls during the year 2008. Interim and annual internal audit reports issued by the internal audit department have also been discussed and reviewed by the Audit Committee. While there have been no material issues noted, audit improvements were identified and remedial actions being taken by the management. The independent audits on the internal control systems covered key financial and operational areas, compliance controls and risk management.

DIRECTORS' REPORT

The Directors have pleasure in presenting their annual report together with the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries during the year are property development, property investment, hotel operation and the provision of related ancillary services and the provision of property development project management and interior decoration services.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 32.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2008.

SHARE CAPITAL

During the year ended 31 December 2008, (i) total number of 11,573,184 new ordinary shares in the Company of HK$0.01 each ("Shares") were issued pursuant to the conversions of the US$200 million convertible notes due 2013 (the "Notes") by noteholders; (ii) total number of 7,031 new Shares were issued as a result of the exercise of subscription right attached to the warrants; (iii) total number of 260,000 new Shares were issued pursuant to the exercise of share options. Details of these transactions are disclosed in note 36 to the financial statements.

All new Shares issued as a result of the conversion of the Notes, subscriptions by warrant holders and exercise of share options rank pari passu with the then existing Shares in all respects.

Details of the movements in the Company's share capital during the year are set out in note 36 to the financial statements.

SHARE OPTIONS

The share option scheme was adopted on 4 August 2005 (the "2005 Scheme").

On 22 August 2006, the Company granted 63,850,000 options to subscribe for the Shares under the 2005 Scheme. During the year ended 31 December 2008, 260,000 share options were exercised and 17,540,000 share options were lapsed. There were 46,050,000 share options outstanding as at 31 December 2008. Details of the share option scheme are set out in note 38 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 37 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2008, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK$1,176,852,000 (inclusive of the Company's contributed surplus) as computed in accordance with generally accepted accounting principles of Hong Kong. In addition, the Company's share premium account in the amount of approximately HK$1,224,954,000 may be distributed in the form of fully paid bonus shares.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 17 to the financial statements.

CONVERTIBLE NOTES

Details of the Notes of the Group are set out in note 33 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 45.6% and 51.0%, respectively, of the Group's total sales for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 34.5% and 72.9%, respectively, of the Group's total purchases for the year.

For the year ended 31 December 2008, 綠景地產股份有限公司 (Lujing Real Estate Co., Ltd.) ("LJR"), a company of which Mr. Yu Pan (Chairman of the Company) is a substantial shareholder, was one of the Group's five largest customers. Save as disclosed above, to the knowledge of the Directors, none of the Directors, their associates, or any shareholders which own more than 5% of the Company's share capital, had any interest in the share capital of any of the other five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

CHARITABLE DONATIONS

During the year, donations made by the Group for charitable and other purposes amounted to HK$544,000.

DIRECTORS' REPORT

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors
Mr. Yu Pan *(Chairman)*
Mr. Lau Yat Tung, Derrick *(Deputy Chairman)*
Mr. Wong Lok
Mr. Wen Xiao Bing *(resigned on 23 December 2008)*

Non-executive Director
Mr. Jerry Wu

Independent Non-executive Directors
Mr. Choy Shu Kwan
Mr. Cheng Wing Keung, Raymond
Ms. Chung Lai Fong

Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong will retire from office by rotation at the forthcoming annual general meeting and being eligible, will offer themselves for re-election in accordance with clause 87(1) of the Company's bye-laws and the Code on Corporate Governance Practices.

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

DIRECTORS' INTERESTS IN CONTRACTS

Except as those disclosed in the section "Connected Transactions and Related Party Transactions" of the report hereinafter, no contracts of significance to which the Company or any of its holding companies or subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code of the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

(a) Interests in the Shares or underlying Shares

Name of Director	Company/ Associated corporation	Capacity	Number of Shares or underlying Shares (long position)	Approximate shareholding percentage
Mr. Yu Pan	Company	Interest of controlled corporation and/or beneficial owner	1,058,112,271 *(note 1)*	71.61% *(note 2)*

Notes:

1. These Shares comprised (i) 94,336,000 existing Shares; and (ii) 963,776,271 existing Shares held directly by Grand Cosmos Holdings Limited ("Grand Cosmos"). The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited ("Sharp Bright"), the entire issued share capital of which was held by Mr. Yu Pan. The 963,776,271 Shares were charged in favour of the security trustee by way of a share charge dated 4 May 2007.

2. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 1,477,687,450 Shares in issue as at 31 December 2008.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

(b) Interests in underlying Shares arising from share options

As at 31 December 2008, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme:

Name of Director	Exercise price *(HK$)*	Exercise period	Number of underlying Shares	Approximate shareholding percentage *(note)*
Mr. Lau Yat Tung, Derrick	1.31	13 March 2007 to 31 July 2015	3,000,000	0.20%
Mr. Choy Shu Kwan	1.31	13 March 2007 to 31 July 2015	600,000	0.04%
Mr. Cheng Wing Keung, Raymond	1.31	13 March 2007 to 31 July 2015	600,000	0.04%
Ms. Chung Lai Fong	1.31	13 March 2007 to 31 July 2015	600,000	0.04%

Note:

For the purpose of this section, the shareholding percentage in the Company was calculated on the basis of 1,477,687,450 Shares in issue as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the year, the Company or any of its holding companies or subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2008, Mr. Yu Pan, the Chairman of the Company, is also a director and substantial shareholder of a company listed on the Shenzhen Stock Exchange, namely LJR which is engaged in the residential real estate development business in the mass market in the PRC. Save as the aforesaid, none of the Directors and his/her respective associates had any interests in any business, which competes or is likely to compete, either directly or indirectly, with the Company's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company).

Mr. Yu has undertaken to the Company that for so long as he remains as a Director or a controlling shareholder of the Company, all enquiries and actual or potential business opportunities received by him (and/or his associates) in relation to property development project management and property investment in the PRC (the "Business Opportunities") shall be referred by Mr. Yu to the Company on a timely basis and the Business Opportunities must be first offered or made available to the Group.

In addition, Mr. Yu has executed a deed of non-competition on 4 May 2007 with the subscribers of the Notes that he and his affiliates will not be engaged or interested in any business in the Group which is engaged in property development of luxury hotels and service apartments, luxury residential and/or high grade commercial buildings in the PRC except for the business undertaken by LJR.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2008, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Interests in the Shares or underlying Shares

Name of Shareholder	**Capacity**	**Number of Shares and underlying Shares**		**Approximate percentage** *(note 10)*
Sharp Bright	Interest of controlled corporation	963,776,271 *(note 1)*	(long)	65.22%
Grand Cosmos	Beneficial owner	963,776,271 *(note 1)*	(long)	65.22%
Merrill Lynch & Co., Inc.	Interests of controlled corporation and/or person having a security interest in Shares	1,516,931,271 *(note 2)*	(long)	102.66%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Interests in the Shares or underlying Shares *(Continued)*

Name of Shareholder	Capacity	Number of Shares and underlying Shares		Approximate percentage *(note 10)*
Lehman Brothers Holdings Inc. (in liquidation)	Interests of controlled corporation and/or person having a security interest in Shares	979,287,355 *(note 3)*	(long)	66.27%
	Interests of controlled corporation	2,700,000	(Short)	0.18%
Walkers SPV Limited	Interests of controlled corporation and/or person having a security interest in Shares	335,911,700 *(note 4)*	(long)	22.73%
DKR Capital Inc.	Interests of controlled corporation and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,347,160,656 *(note 5)*	(long)	91.17%
DKR Management Co., Inc.	Interests of controlled corporation and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,347,160,656 *(note 5)*	(long)	91.17%
DKR Capital Partners LP	Interests of controlled corporation and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,347,160,656 *(note 5)*	(long)	91.17%

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Interests in the Shares or underlying Shares *(Continued)*

Name of Shareholder	Capacity	Number of Shares and underlying Shares		Approximate percentage *(note 10)*
Oasis Management Holdings LLC	Interests of controlled corporation and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,347,160,656 *(note 5)*	(long)	91.17%
DKR Oasis Management Co. LP	Investment manager and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,347,160,656 *(note 5)*	(long)	91.17%
DKR SoundShore Oasis Holding Fund Ltd.	Beneficial owner and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	276,162,679 *(note 6)*	(long)	18.69%
Chestnet Fund Ltd.	Beneficial owner and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,070,997,977 *(note 7)*	(long)	72.48%
Deutsche Bank Aktiengesellschaft	Person having a security interest in Shares	89,055,660	(long)	6.03%

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Interests in the Shares or underlying Shares *(Continued)*

Name of Shareholder	Capacity	Number of Shares and underlying Shares	Approximate percentage *(note 10)*
PMA Capital Management Limited	Investment manager and/or person having a security interest in Shares	1,080,954,771 (long) *(note 8)*	73.15%
PMA Prospect Fund	Beneficial owner and/or person having a security interest in Shares	1,052,831,931 (long) *(note 8)*	71.25%
PMA Focus Fund	Beneficial owner and/or person having a security interest in Shares	991,899,111 (long) *(note 8)*	67.13%
Dalton Greater China (Master) Fund	Beneficial owner and/or person having a security interest in Shares	1,005,513,771 (long) *(note 9)*	68.05%
Dalton Investments LLC	Investment manager	1,005,513,771 (long) *(note 9)*	68.05%

Notes:

1. 963,776,271 existing Shares were held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. Yu Pan, Mr. Yu Pan was deemed to be interested in the Shares in which Sharp Bright was interested by virtue of SFO. The 963,776,271 Shares were charged in favour of the security trustee by way of share charge dated 4 May 2007.

2. These Shares comprised (i) 6,322,000 existing Shares; (ii) 963,776,271 Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and (iii) 546,833,000 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the reset conversion price of HK$1.00 held directly or indirectly by ML Asian R.E. Fund GP, L.L.C., ML Asian R.E. GP, L.P., Merrill Lynch Asian Real Estate Opportunity Fund, L.P., Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe PLC, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited, ML UK Capital Holdings, Merrill Lynch International (indirectly wholly owned by Merrill Lynch & Co. Inc.), Merrill Lynch Asian Real Estate Fund Manager Pte Ltd. and its sub-advisors. All of these entities were controlled by Merrill Lynch & Co., Inc.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Interests in the Shares or underlying Shares *(Continued)*

Notes: (Continued)

3. These Shares comprised (i) 7,699,184 existing Shares; (ii) 963,776,271 Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and (iii) 7,811,900 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the reset conversion price of HK$1.00 held directly or indirectly by Lehman Brothers Commercial Corporation Asia Limited (in liquidation), LBCCA Holdings I LLC. and LBCCA Holdings II LLC. All these entities were controlled by Lehman Brothers Holdings Inc.

4. These Shares comprised 335,911,700 underlying Shares which would be issued upon exercise to the conversion rights attaching to the Notes at the reset conversion price of HK$1.00 held by Kingfisher Capital CLO Limited which was controlled by Walkers SPV Limited.

5. These Shares comprised (i) 8,413,185 existing Shares; (ii) 963,776,271 Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and (iii) 374,971,200 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the reset price of HK$1.00.

6. These Shares comprised (i) 8,413,185 existing Shares; (ii) 192,755,254 Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and (iii) 74,994,240 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the reset price of HK$1.00.

7. These Shares comprised (i) 771,021,017 Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and (ii) 299,976,960 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the reset price of HK$1.00.

8. These Shares comprised (i) 963,776,271 Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and (ii) 117,178,500 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the reset conversion price of HK$1.00 held by PMA Prospect Fund (as to 89,055,660 underlying Shares) and PMA Focus Fund (as to 28,122,840 underlying Shares). All of these funds were controlled by PMA Capital Management Limited.

9. These Shares comprised (i) 963,776,271 Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; (ii) 2,678,000 existing Shares held directly or indirectly by Dalton Investments LLC and Dalton Greater China (Master) Fund and (iii) 39,059,500 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the reset conversion price of HK$1.00 held directly or indirectly by Dalton Investments LLC and Dalton Greater China (Master) Fund. The latter was managed by Dalton Investments LLC.

10. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 1,477,687,450 Shares in issue as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, the Company had not been notified by any persons or corporations who had any long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Save as the transactions stated below, none of the Directors, substantial shareholders or controlling shareholders of the Company and their respective associates was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at 31 December 2008 which was significant in relation to the business of either the Group or has any material personal interest.

Details of the discloseable connected transactions for the year are set out in note 44 to the financial statements.

CORPORATE GOVERNANCE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2008 financial statements, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except for code provision A2.1, where the roles of chairman and chief executive officer of the Company is not separated as required but is currently performed by the same individual.

Due to the small size of the management team, both the roles of the Chairman and Chief Executive Officer of the Company are currently played by Mr. Yu Pan. The Board considers the current simple but efficient management team serves sufficiently enough the need of the Group. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the management team to ensure a proper balance of power and authority within the Company.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

During the year, the Company has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Specific confirmation has been obtained from all Directors to confirm compliance with the Model Code throughout the year ended 31 December 2008.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

RETIREMENT BENEFITS SCHEMES

Particulars of the retirement benefits schemes of the Group are set out in note 40 to the financial statements.

PRE-EMPTIVE RIGHTS

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

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 108.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirmed that the Company has maintained the prescribed amount of public float as required under the Listing Rules during the year and up to the date of this report.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after the balance sheet date are set out in note 47 to the financial statements.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. BDO McCabe Lo Limited as auditor of the Company.

On behalf of the Board

Yu Pan
Chairman

Hong Kong, 17 April 2009

INDEPENDENT AUDITOR'S REPORT

BDO

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TO THE SHAREHOLDERS OF SKYFAME REALTY (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Skyfame Realty (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 32 to 107, which comprise the consolidated and the Company's 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 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, 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 consolidated financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion: material uncertainty relating to the going concern basis

As described in notes 32(b) and 33 to the consolidated financial statements, the Group has failed to repay other borrowings of HK$220,000,000 on the due date of 29 January 2009 and, after the balance sheet date, the following terms stipulated in the note purchase agreement in relation to the convertible notes with outstanding principal value of approximately HK$1,499,885,000 (the "Notes") at the balance sheet date have not been complied with:

(1) the Group has not yet been able to obtain the land use right certificate for one of the property development projects within the agreed timeframe with the holders of the Notes; and

(2) as a result of (1) above, there can be an early redemption of the Notes to the extent of the principal amount of approximately HK$585,893,000 and payment of accrued interests of approximately HK$152,988,000.

In forming our opinion, we have considered the adequacy of the disclosures made in note 3(c) to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. The Group is currently undertaking a number of measures to remedy the non-compliances. The appropriateness of preparing the Group's and the Company's financial statements on the going concern basis depends on the outcomes of (i) further agreements that can be reached between the Group and these lenders of borrowings; (ii) the arrangement of a debt rescheduling plan to relax the terms and conditions of the Notes; (iii) obtaining new banking facilities to finance certain property development projects; and (iv) realisation of certain assets to provide additional funding as necessary. We consider that appropriate disclosures have been made; however, we consider that this material uncertainty is so extreme that we disclaim our opinion in respect of the appropriateness of the going concern basis. The financial statements of the Group and the Company do not include any adjustments that would be necessary if the Group failed to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to reduce the carrying value of the Group's and the Company's assets to their recoverable amounts, to provide further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. Such adjustments may have a consequential significant effect on the Group's and the Company's net assets as at 31 December 2008 and the Group's profit for the year then ended.

Disclaimer of opinion

Because of the significance of the material uncertainty relating to the going concern basis, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group and of the Company 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. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO McCabe Lo Limited
Certified Public Accountants

Li Yin Fan
Practising Certificate Number P03113

Hong Kong, 17 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	7	**564,650**	125,631
Cost of sales and services		**(335,813)**	(65,804)
Gross profit		**228,837**	59,827
Other income		**4,066**	493
Sales and marketing expenses		**(22,569)**	(9,091)
Administrative expenses		**(179,831)**	(134,917)
Fair value changes in investment properties		**(119,263)**	(22,926)
Impairment loss on goodwill	21	**(66,511)**	–
Fair value changes in financial derivative liabilities			
– convertible notes		**976,924**	267,789
– convertible preference shares		**–**	(11,507)
Discount on business combinations		**–**	67,965
Share of profit of associate, net of tax		**–**	8,251
Finance costs	8	**(189,957)**	(79,877)
Finance income	8	**2,982**	14,089
Profit before income tax	9	**634,678**	160,096
Income tax credit	13	**49,670**	61,239
Profit for the year		**684,348**	221,335
Attributable to:			
– Equity holders of the Company	16	**685,128**	209,078
– Minority interests		**(780)**	12,257
		684,348	221,335
Dividends	15	**Nil**	Nil
Earnings (loss) per share	16		
– Basic		**HK46.337 cents**	HK17.398 cents
– Diluted		**(HK13.484 cents)**	(HK1.750 cents)

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	17	**1,046,987**	1,017,087
Prepaid lease payments – non-current portion	18, 48	**736,550**	223,808
Investment properties	19	**401,543**	492,325
Properties held for development	20	**962,867**	1,529,339
Goodwill	21	**68,316**	118,088
Deposits paid for acquisition of land use right		**–**	32,408
		3,216,263	3,413,055
Current assets			
Properties held for sale	24	**573,808**	603,427
Prepaid lease payments – current portion	18, 48	**494,718**	445,191
Properties under development	20	**86,268**	–
Inventories	26	**19,542**	31,790
Trade and other receivables	27	**33,900**	31,016
Restricted and pledged deposits	28	**67,737**	358,711
Cash and cash equivalents	29	**53,720**	63,338
		1,329,693	1,533,473
Assets classified as held for sale	30	**713,399**	–
		2,043,092	1,533,473
Current liabilities			
Trade and other payables	31	**219,761**	241,904
Bank and other borrowings – current portion	32	**280,228**	242,790
Deferred income		**3,779**	–
Income tax payable		**48,080**	24,161
		551,848	508,855
Liabilities associated with assets classified as held for sale	30	**108,884**	–
		660,732	508,855
Net current assets		**1,382,360**	1,024,618
Total assets less current liabilities		**4,598,623**	4,437,673

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Other payable	31	**63,573**	63,573
Bank and other borrowings – non-current portion	32	**1,042,480**	940,339
Convertible notes	33	**306,337**	211,946
Financial derivative liabilities	33	**93,162**	1,081,572
Loan from minority shareholder of a subsidiary	34	**273,968**	–
Deferred tax liabilities	35	**273,674**	453,561
		2,053,194	2,750,991
Net assets		**2,545,429**	1,686,682
Capital and reserves			
Share capital	36	**14,777**	14,659
Reserves	37	**2,505,918**	1,672,023
Equity attributable to equity holders of the Company		**2,520,695**	1,686,682
Minority interests		**24,734**	–
Total equity		**2,545,429**	1,686,682

On behalf of the Board

Yu Pan
Director

Lau Yat Tung, Derrick
Director

BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Interests in subsidiaries	22	**2,739,984**	2,457,655
Current assets			
Amounts due from subsidiaries	22	**42,882**	12,803
Other receivables	27	**647**	1,605
Restricted and pledged deposits	28	**46,311**	337,528
Cash and cash equivalents	29	**114**	9,679
		89,954	361,615
Current liabilities			
Other payables	31	**1,020**	1,942
Amount due to subsidiary	22	**123**	–
		1,143	1,942
Net current assets		**88,811**	359,673
Total assets less current liabilities		**2,828,795**	2,817,328
Non-current liabilities			
Convertible notes	33	**306,337**	211,946
Financial derivative liabilities	33	**93,162**	1,081,572
		399,499	1,293,518
Net assets		**2,429,296**	1,523,810
Capital and reserves			
Share capital	36	**14,777**	14,659
Reserves	37	**2,414,519**	1,509,151
Total equity		**2,429,296**	1,523,810

On behalf of the Board

Yu Pan
Director

Lau Yat Tung, Derrick
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Contributed surplus reserve HK$'000	Share-based payment reserve HK$'000	Property revaluation reserve HK$'000	Merger reserve HK$'000	Statutory reserves HK$'000	Other reserves HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
For the year ended 31 December 2007													
At 1 January 2007	12,354	724,718	15,497	3,584	–	(301,662)	6,108	–	19,264	241,657	721,520	45,345	766,865
Expenses incurred on issue of shares	–	(13)	–	–	–	–	–	–	–	–	(13)	–	(13)
Exchange differences arising on consolidation of overseas entities	–	–	–	–	–	–	–	–	165,827	–	165,827	8,936	174,763
Share of changes in reserves of associate	–	–	–	–	–	–	–	–	4,274	–	4,274	–	4,274
Surplus arising from revaluation upon acquisition of subsidiaries	–	–	–	–	84,842	–	–	–	–	–	84,842	–	84,842
Net (expenses) income recognised directly in equity	–	(13)	–	–	84,842	–	–	–	170,101	–	254,930	8,936	263,866
Profit for the year	–	–	–	–	–	–	–	–	–	209,078	209,078	12,257	221,335
Total recognised (expenses) income for the year	–	(13)	–	–	84,842	–	–	–	170,101	209,078	464,008	21,193	485,201
Conversion of convertible notes	347	42,196	–	–	–	–	–	–	–	–	42,543	–	42,543
Conversion of convertible preference shares	–	59,757	–	–	–	–	–	–	–	–	59,757	–	59,757
Issue of shares:													
– Convertible preference shares	1,905	378,587	–	–	–	–	–	–	–	–	380,492	–	380,492
– Exercise of bonus warrants	53	5,747	–	–	–	–	–	–	–	–	5,800	–	5,800
Transfer among reserves	–	–	–	–	–	–	–	2,049	–	(2,049)	–	–	–
Recognition of equity-settled share-based payment expenses	–	–	–	12,562	–	–	–	–	–	–	12,562	–	12,562
Acquisition of minority interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(66,538)	(66,538)
	2,305	486,287	–	12,562	–	–	–	2,049	–	(2,049)	501,154	(66,538)	434,616
At 31 December 2007	14,659	1,210,992	15,497	16,146	84,842	(301,662)	6,108	2,049	189,365	448,686	1,686,682	–	1,686,682

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Notes	Share capital HK$'000	Share premium HK$'000	Contributed surplus reserve HK$'000	Share-based payment reserve HK$'000	Property revaluation reserve HK$'000	Merger reserve HK$'000	Statutory reserves HK$'000	Other reserves HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
		Attributable to equity holders of the Company												
For the year ended 31 December 2008														
At 1 January 2008		14,659	1,210,992	15,497	16,146	84,842	(301,662)	6,108	2,049	189,365	448,686	1,686,682	–	1,686,682
Expenses incurred on issue of shares		–	(12)	–	–	–	–	–	–	–	–	(12)	–	(12)
Exchange differences arising on consolidation of overseas entities		–	–	–	–	–	–	–	–	186,763	–	186,763	62	186,825
Impairment loss on properties held for development	20	–	–	–	–	(71,151)	–	–	–	–	–	(71,151)	–	(71,151)
Deferred tax credit directly recognised in equity	35	–	–	–	–	17,788	–	–	–	–	–	17,788	–	17,788
Net (expenses) income recognised directly in equity		–	(12)	–	–	(53,363)	–	–	–	186,763	–	133,388	62	133,450
Profit (loss) for the year		–	–	–	–	–	–	–	–	–	685,128	685,128	(780)	684,348
Total recognised (expenses) income for the year		–	(12)	–	–	(53,363)	–	–	–	186,763	685,128	818,516	(718)	817,798
Contribution from minority shareholder of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	25,452	25,452
Conversion of convertible notes	36(a)(i)	116	13,555	–	–	–	–	–	–	–	–	13,671	–	13,671
Reallocation of lapsed options from share-based payment reserve to retained profits		–	–	–	(4,838)	–	–	–	–	–	4,838	–	–	–
Issue of shares:														
– Exercise of bonus warrants	36(a)(ii)	–	8	–	–	–	–	–	–	–	–	8	–	8
– Exercise of share options	36(a)(iii)	2	411	–	(73)	–	–	–	–	–	–	340	–	340
Transfer among reserves		–	–	–	–	–	–	–	4,109	–	(4,109)	–	–	–
Recognition of equity-settled share-based payment expenses		–	–	–	1,478	–	–	–	–	–	–	1,478	–	1,478
		118	13,974	–	(3,433)	–	–	–	4,109	–	729	15,497	25,452	40,949
At 31 December 2008		14,777	1,224,954	15,497	12,713	31,479	(301,662)	6,108	6,158	376,128	1,134,543	2,520,695	24,734	2,545,429

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Net cash from (used in) operating activities	39	**137,662**	(158,933)
Investing activities			
Interest received		**4,149**	2,801
Acquisitions of subsidiaries		**–**	(1,195,082)
Sale proceeds from disposal of financial asset at fair value through profit or loss		**–**	674
Capital contributions to an associate		**–**	(2,303)
Additions to properties held for/under development		**(95,525)**	(7,623)
Additions to prepaid lease payments		**(597,558)**	–
Additions to hotel properties		**–**	(135,540)
Payment of construction costs of completed properties in prior year		**(82,817)**	–
Purchases of property, plant and equipment		**(48,808)**	(34,585)
Proceeds from sale of property, plant and equipment		**4**	–
Net cash used in investing activities		**(820,555)**	(1,371,658)
Financing activities			
Exercise of bonus warrants		**8**	5,800
Proceeds from shares issued under share option scheme		**340**	–
Expenses incurred on issue of shares		**(12)**	(13)
Proceeds from issue of convertible notes		**–**	1,562,380
Payment of issuing cost for convertible notes		**–**	(13,472)
Repayment of cash advances from a related company		**–**	(33,709)
Decrease (increase) in restricted and pledged deposits		**290,268**	(358,711)
Proceeds from bank and other borrowings		**254,037**	401,206
Repayment of bank and other borrowings		**(170,985)**	(21,306)
Advance from minority shareholder of a subsidiary		**271,321**	–
Capital contributions from minority shareholder of a subsidiary		**25,452**	–
Net cash from financing activities		**670,429**	1,542,175
Net (decrease) increase in cash and cash equivalents		**(12,464)**	11,584
Effect of foreign exchange rate changes		**3,712**	3,761
Cash and cash equivalents at beginning of year		**63,338**	47,993
		54,586	63,338
Less: Balance classified as assets held for sale		**(866)**	–
Cash and cash equivalents at end of year	29	**53,720**	63,338

1. GENERAL

Skyfame Realty (Holdings) Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its registered office and principal place of business are at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and 2502B, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong respectively.

The Company's parent is Grand Cosmos Holdings Limited ("Grand Cosmos") and ultimate holding company is Sharp Bright International Limited ("Sharp Bright"). Grand Cosmos and Sharp Bright are both incorporated in the British Virgin Islands (the "BVI").

The Company and its subsidiaries are hereinafter collectively referred to as the "Group". The principal activity of the Company continues to be investment holding. The principal activities of its subsidiaries are property development, property investment, hotel operation and the provision of related ancillary services, and the provision of property development project management and interior decoration services.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("NEW HKFRSs")

(a) Impact of New HKFRSs which are effective during the year

In the current year, the Group has applied, for the first time, the following amendments and new interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), that are effective for the current accounting period of the Group.

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

The adoption of the above amendments and new interpretations had no material effect on the results of the Group or financial position of the Group and the Company for the current and prior accounting periods and no prior period adjustment has been recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("NEW HKFRSs") (Continued)

(b) Potential impact arising on New HKFRSs not yet effective

The Group has not early applied the following New HKFRSs that have been issued but are not yet effective.

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

1 *Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5 which are effective for annual periods beginning on or after 1 July 2009.*

2 *Effective for annual periods beginning on or after 1 January 2009.*

3 *Effective for annual periods beginning on or after 1 July 2009.*

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

5 *Effective for annual periods beginning on or after 1 October 2008.*

6 *Effective for annual periods ending on or after 30 June 2009.*

7 *Effective for transfers of assets from customers received on or after 1 July 2009.*

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("NEW HKFRSs") (Continued)

(b) Potential impact arising on New HKFRSs not yet effective (Continued)

The adoption of HKFRS 3 (Revised) may affect the accounting policy on business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The adoption of HKAS 27 (Revised) may affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The adoption of HK(IFRIC) – Interpretation 15 may affect the accounting treatment on revenue recognition of an entity engaged in the construction of real estate. However, the Group's current accounting policy is already in compliance with HK(IFRIC) – Interpretation 15. The adoption of HKAS 1 (Revised) and HKFRS 8 may result in new or amended disclosures.

Except for these, the directors of the Company (the "Directors") anticipate that the application of the other New HKFRSs will have no material impact on the results and the financial position of the Group.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their revalued amounts or fair values as explained in the accounting policies set out in note 4:

- investment properties; and
- derivative financial instruments.

Assets and liabilities classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. BASIS OF PREPARATION (Continued)

(c) Going concern

Notwithstanding that the Group had other short-term borrowings of Hong Kong dollars ("HK$") 220,000,000 (the "Term Loan"), as disclosed in note 32(b), which are overdue and remain outstanding at the date of authorisation for issue of the consolidated financial statements, and, after the balance sheet date, certain terms stipulated in the note purchase agreement in relation to the United States dollars ("US$") 200 million convertible notes (the "Notes"), as disclosed in note 33, with outstanding principal value of approximately HK$1,499,885,000 at the balance sheet date have not been complied with, the consolidated financial statements have been prepared on a going concern basis as the Directors are of the opinion that the Company and the Group will be able to continue as a going concern and to meet their obligations as and when they fall due having regard to the development of the events after the balance sheet date as described in note 47 and the following arrangements and plans:

(1) The Group's transaction to disposes of its 80% equity interest in the Tianhe Project as described in note 47 would be completed on schedule in late May 2009.

(2) The Term Loan was due for repayment on 29 January 2009. On 16 January 2009, the Group entered into a standstill arrangement with the lenders of the Term Loan. Under the standstill arrangement, the lenders agreed to refrain from exercising their rights and remedies under the relevant terms of the Term Loan until 19 February 2009.

In addition to the aforesaid standstill arrangement, the Group subsequently entered into several standstill arrangements with the same lenders. In accordance with the latest standstill arrangement dated 7 April 2009, the lenders agreed to refrain from exercising their rights and remedies under the relevant terms of the Term Loan until 17 April 2009.

The Directors believe that the standstill arrangements are a positive indication of continuing support from the lenders of the Term Loan. With a view to securing the continuing support from the lenders, the Directors do not expect that the lenders will require the Group to repay the Term Loan on the expiry date of the standstill arrangement of 17 April 2009 or before the disposal of the Group's 80% equity interest in the Tianhe Project as described in note 47. The disposal by the Group of the 80% equity interest in the Tianhe Project would reduce substantial part but not all of the Term Loan. Nevertheless, the Directors believe that the lenders would provide support on a long-term basis to further postpone the repayment of any remaining part of the Term Loan.

(3) New banking facilities have been and will be available to the Group from financial institutions to finance work in progress of the Zhoutouzui and Guiyang Projects in accordance with respective construction timetables.

3. BASIS OF PREPARATION (Continued)

(c) Going concern (Continued)

(4) The Directors believe that the holders of the Notes will agree to refrain from exercising their rights of:

(i) an early redemption of the Notes to the extent of the principal amount of US$75,000,000 (approximately HK$585,893,000) and payment of accrued interests of approximately HK$152,988,000 (the "Automatic Redemption") that is eligible from 31 March 2009 onwards, which has been extended to 31 May 2009, if the Group fails to fulfill the conditions stipulated in the trust deed of the Notes (the "Trust Deed"); and

(ii) the put option, which is exercisable from 4 May 2010 onwards and the redemption amount under which shall not exceed 30% of the principal value of the Notes at the date of issue plus accrued interests.

(5) Taking in the prevailing circumstances, the Directors believe that a debt rescheduling plan can be arranged to relax the terms and conditions of the Notes including extending the timing of the Automatic Redemption and the put option under the Trust Deed.

(6) Assets can be realised to provide additional funding to remedy the potential claims from the lenders of the Term Loan and the Automatic Redemption and early put option under the Trust Deed, should there be no rescheduling plan executed.

(7) The Directors believe that the non-compliances in repayment of the Term Loan occurred after the balance sheet date and the Notes as stated in note 47 will be remedied and there will not be any other events triggering acceleration of repayment of debts such as redemption of the Notes and demand for immediate servicing of debts nor there will be any claims for consequential losses or damages.

The Directors believe that the Company and the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the consolidated financial statements have been prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(e) Functional and presentation currency

The consolidated financial statements are presented in HK$, which is the Company's functional currency while the functional currency of its principal subsidiaries is Renminbi ("RMB").

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

4. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and of its subsidiaries. Inter-company transactions and balances between group companies are eliminated in full in preparing the consolidated financial statements.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's balance sheet, investment in subsidiaries is stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Jointly controlled entities

A jointly controlled entity is a joint venture under contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Interest in jointly controlled entity is included in the consolidated financial statements using proportionate consolidation. The Group's share of the jointly controlled entity's assets, liabilities, income and expenses are combined line-by-line with similar items of the Group. Any premium paid for an interest in jointly controlled entity above the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities is dealt with under the goodwill policy as set out in note 4(d).

Profits and losses arising on transactions between the Group and jointly controlled entity are recognised only to the extent of unrelated investors' interests in the entity. The investor's share in the jointly controlled entity's profits and losses resulting from these transactions is eliminated against the asset or liability of the jointly controlled entity arising on the transaction.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as a separate asset with any impairment in carrying value being charged to the consolidated income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid ("discount on business combination"), the excess is credited in full to the consolidated income statement.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date. The useful lives are as follows:

Hotel properties and leasehold improvements	10 to 30 years
Office building and leasehold improvements	10 to 30 years
Furniture, fixtures and equipment	2 to 5 years
Motor vehicles	4 to 5 years

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

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in the consolidated income statement on disposal.

(f) Investment properties

Investment properties are properties held to earn rentals or for capital appreciation and not occupied by the Group. Investment properties are measured at cost on initial recognition. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Changes in fair value are recognised in the consolidated income statement for the period in which they arise.

(g) Prepaid lease payments

Prepaid lease payments represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost less any impairment and are amortised over the period of the lease on a straight-line basis to the consolidated income statement.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price of properties sold in the ordinary course of business less estimated costs to be incurred in selling the properties.

(i) Properties held for/under development

Properties held for/under development are stated at cost, less any identified impairment loss. The cost of properties comprises development expenditure, professional fees and borrowing costs capitalised. During the construction period, the amortisation of prepaid lease payments in respect of land use rights is included as part of the cost of properties held for/under development.

(j) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Lease incentives received are recognised as an integrated part of the total rental expenses, over the term of the lease. The total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(k) Financial instruments

(i) Financial assets

The Group classifies its financial assets into the category of loans and receivables. The Group's accounting policy for this category is as follows:

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

(ii) Impairment loss on financial assets

Objective evidence that the asset is impaired includes observable data that comes to the attention of the Group includes the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

The Group classifies its financial liabilities into one of the two categories, depending on the purpose for which the liabilities were incurred. The Group's accounting policy for each category is as follows:

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

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

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

(iii) Financial liabilities (Continued)

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

Financial liabilities at amortised cost: Financial liabilities at amortised cost, including trade and other payables, borrowings and the liability component of convertible notes issued by the Group, are initially recognised at fair value, net of directly attributable transaction costs incurred, and are subsequently measured at amortised cost, using effective interest method. The related interest expense is recognised within "finance costs" in the consolidated income statement, if any.

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

(iv) Convertible debts

Convertible notes issued by the Group that contain both liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in the consolidated income statement, in accordance with note 4(k)(iii).

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs related to the conversion option derivative is charged to the income statement immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the financial asset expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from goods sold or services provided as follows:

(i) Revenue from sale of properties is recognised when the risks and rewards of ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed, the properties have been delivered to the purchasers pursuant to the sales agreement and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included as trade and other payables under current liabilities in the consolidated balance sheet.

(ii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Revenue from hotel operation and from the provision of related ancillary services is recognised when the relevant services are provided.

(iv) Income from the provision of property development project management and interior decoration services are recognised when project management services are provided.

(v) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(n) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for temporary differences arising from goodwill or from the initial recognition (other than in a business combination) of recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Income taxes (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date. Income taxes are recognised in the consolidated income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(o) Foreign currency

Transactions entered into by entities in the Group in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of the group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to the foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the foreign exchange reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Employee benefits

(i) Defined contribution pension plan

Contributions to defined contribution retirement plan are recognised as an expense in the consolidated income statement when the services are rendered by the employees.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated income statement over the vesting period with a corresponding increase in the share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the consolidated income statement is charged with the fair value of goods or services received unless the goods or services qualify for recognition as assets. A corresponding increase in the share-based payment reserve within equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

(r) Impairment of non-financial assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of property, plant and equipment, prepaid lease payments, properties held for/under development and investment in subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of a non-financial asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Impairment of non-financial assets other than goodwill (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(s) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Associates

Where the Group has the power to participate in (but not control nor joint control) the financial and operating policy decisions of another entity, that another entity is classified as an associate. Associates are accounted for using the equity method whereby they are initially recognised in the consolidated balance sheet at cost and thereafter, their carrying values are adjusted for the Group's share of the post-acquisition change in the associates' net assets – except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and subject to impairment in the same way as goodwill arising on a business combination.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Business combinations under common control

Business combinations under common control are accounted for in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet dates or when they first came under common control, whichever is shorter.

All significant intra-group transactions and balances have been eliminated on consolidation.

(w) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been invited;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(w) Non-current assets held for sale and disposal groups (Continued)

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

(i) their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and

(ii) fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not amortised or depreciated. The results of operations disposed of during the year are included in the consolidated income statement up to the date of disposal.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, 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.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key sources of estimation uncertainty are as follows.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. As at 31 December 2008, the carrying amount of goodwill is approximately HK$68,316,000 (2007: HK$118,088,000) after an impairment on goodwill of HK$66,511,000 (2007: HK$Nil) has been provided during the impairment test for goodwill. Details of the recoverable amount calculation are disclosed in note 21.

Impairment of non-financial assets other than goodwill

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred.

Upon the occurrence of triggering events, the carrying amounts of non-financial assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus residual value of the asset on disposal. Where the recoverable amount of non-financial assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment of non-financial assets other than goodwill (Continued)

The impairment assessment is performed based on the discounted cash flow analysis. This analysis relies on factors such as forecast of future performance and long-term growth rates and the selection of discount rates. If these forecast and assumptions prove to be inaccurate or circumstances change, further write-down or reversal of the write-down of the carrying value of the non-financial assets may be required.

Income taxes and deferred taxes

The Group is subject to taxation in the People's Republic of China (the "PRC") and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will have impact on the income tax and/or deferred tax provisions in the period in which such determination is made.

Land appreciation taxes

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

Those subsidiaries of the Company which are engaged in property development business in the PRC are subject to land appreciation taxes, which have been included in income tax expense in the consolidated income statement. However, the implementation of these taxes varies amongst various PRC cities and the Group has not finalised its LAT returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and provision for land appreciation taxes in the period in which such determination is made.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Convertible notes

As described in note 33, the Company's convertible notes contain a number of embedded derivatives that are remeasured to fair value through profit or loss at subsequent reporting dates. The Company engaged an independent appraiser to assist it in determining the fair value of these embedded derivatives. The determination of fair value was made after consideration of a number of factors, including:

- the Group's financial and operating results;
- the global economic outlook in general and the specific economic and competitive factors affecting the Group's business;
- the nature and prospects of the PRC property market;
- the Group's business plan and prospects;
- business risks the Group faces; and
- market yields and return volatility of comparable corporate bonds.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

6. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION

For management purposes, the Group is currently organised into four operating divisions – property development, property investment, hotel operation and related ancillary services ("hotel operation") and property project management and interior decoration services ("project management"). As over 90% of the Group's segment revenue and segment results were derived from the PRC, no segment information has been disclosed in respect of the Group's geographical segments. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Hotel operation	–	Hotel operation and provision of related ancillary services
Project management	–	Provision of property development project management and interior decoration services

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For the year ended 31 December 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION (Continued)

Segment information about these businesses is presented below:

	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Project management HK$'000	Corporate HK$'000	Total HK$'000
Results for the year ended 31 December 2008						
External sales and segment revenue	289,886	19,345	255,419	–	–	564,650
Segment results	32,142	14,420	10,363	517		57,442
Corporate operating expenses					(26,939)	(26,939)
Fair value changes in investment properties		(119,263)				(119,263)
Impairment loss on goodwill	(66,511)					(66,511)
Fair value changes in financial derivative liabilities – convertible notes						976,924
Finance costs						(189,957)
Finance income						2,982
Profit before income tax						634,678
Income tax credit						49,670
Profit for the year						684,348
Assets and liabilities as at 31 December 2008						
Assets						
Assets classified as held for sale	713,399	–	–	–	–	713,399
Other segment assets	2,671,643	403,731	1,242,211	–	228,371	4,545,956
	3,385,042	403,731	1,242,211	–	228,371	5,259,355
Liabilities						
Liabilities associated with assets classified as held for sale	108,884	–	–	–	–	108,884
Other segment liabilities	705,535	21,995	69,893	–	1,807,619	2,605,042
	814,419	21,995	69,893	–	1,807,619	2,713,926
Other segment information for the year ended 31 December 2008						
Capital expenditure	761,128	–	38,083	–	13,963	813,174
Depreciation and amortisation	22,077	10	78,195	–	6,641	106,923

6. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION (Continued)

	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Project management HK$'000	Eliminations HK$'000	Corporate HK$'000	Total HK$'000
Results for the year ended 31 December 2007							
External sales	2,420	18,547	102,190	2,474	–	–	125,631
Inter-segment sales	–	424	–	–	(424)	–	–
Segment revenue	2,420	18,971	102,190	2,474	(424)	–	125,631
Segment results	(13,190)	10,404	(35,533)	(1,813)			(40,132)
Corporate operating expenses						(43,556)	(43,556)
Fair value changes in investment properties		(22,926)					(22,926)
Fair value changes in financial derivative liabilities							
– convertible notes							267,789
– convertible preference shares							(11,507)
Discount on business combinations	67,965						67,965
Share of profit of associate, net of tax	8,251						8,251
Finance costs							(79,877)
Finance income							14,089
Profit before income tax							160,096
Income tax credit							61,239
Profit for the year							221,335
Assets and liabilities as at 31 December 2007							
Assets							
Segment assets	2,703,455	504,727	1,200,016	277	–	538,053	4,946,528
Liabilities							
Segment liabilities	372,394	16,701	124,886	155	–	2,745,710	3,259,846
Other segment information for the year ended 31 December 2007							
Capital expenditure	187,669	–	210,158	45	–	8,964	406,836
Depreciation and amortisation	8,530	25	45,997	23	–	2,010	56,585

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

7. REVENUE

Revenue represents the net invoiced amounts received and receivable from property development, property investment, hotel operation and the provision of related ancillary services, and provision of property development project management and interior decoration services. The amounts of each significant category of revenue recognised during the year are as follows:

	2008	2007
	HK$'000	*HK$'000*
Sale of properties	**257,399**	505
Rental income	**51,832**	20,462
Hotel operation	**255,419**	102,190
Property development project management and interior decoration service fees	**–**	2,474
	564,650	125,631

8. FINANCE COSTS AND INCOME

	Notes	2008 HK$'000	2007 HK$'000
Finance costs:			
Interest on convertible notes			
– wholly repayable within five years	33	**156,571**	–
– wholly repayable after five years	33	**–**	78,348
Interest on bank and other borrowings			
– wholly repayable within five years		**36,821**	12,125
– wholly repayable after five years		**74,742**	47,884
Imputed interest on loan from minority shareholder of a subsidiary		**–**	6,020
		268,134	144,377
Less: Amount capitalised as properties held for/under development at the rate of approximately 30% (2007: 50%)			
Interest on convertible notes			
– wholly repayable within five years		**(65,760)**	–
– wholly repayable after five years		**–**	(44,988)
Interest on bank and other borrowings			
– wholly repayable within five years		**(14,807)**	(12,125)
– wholly repayable after five years		**–**	(9,568)
Imputed interest on loan from minority shareholder of a subsidiary		**–**	(6,020)
	20	**(80,567)**	(72,701)
		187,567	71,676
Issue cost on derivative components of convertible notes		**–**	6,905
Other borrowing costs		**4,781**	4,215
Less: Amount capitalised as properties held for/under development	20	**(2,391)**	(2,919)
		2,390	1,296
Finance costs charged to consolidated income statement		**189,957**	79,877
Finance income:			
Bank interest income		**2,669**	12,076
Other interest income		**313**	2,013
		2,982	14,089

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

9. PROFIT BEFORE INCOME TAX

Profit before income tax for the year has been arrived at after charging (crediting):

	Notes	**2008** *HK$'000*	2007 *HK$'000*
Cost of materials sold		**25,002**	13,031
Cost of properties sold		**109,805**	695
Prepaid lease payments recognised as cost of sales		**90,495**	174
Staff costs, including directors' emoluments	*10*	**71,325**	46,622
Equity-settled share-based payment expenses incurred for non-employees		**–**	8,794
Auditors' remuneration – current year		**1,160**	1,380
Depreciation of property, plant and equipment	*17*	**77,992**	43,821
Less: Amount capitalised as properties held for/under development	*20*	**(6)**	(18)
Total depreciation charged to consolidated income statement		**77,986**	43,803
Amortisation of prepaid lease payments		**28,931**	12,764
Less: Amount capitalised as properties held for/under development	*20*	**(8,161)**	(6,441)
Total amortisation charged to consolidated income statement	*18*	**20,770**	6,323
Loss on disposal of property, plant and equipment		**2**	–
Minimum lease payments under operating lease in respect of:			
– subleasing of properties recognised as cost of services		**1,280**	2,784
– rented office premises		**1,472**	1,526
– rented other premises		**3,038**	2,094
Exchange loss, net		**822**	524
Waiver of amount due from a director arising from business combination under common control		**–**	12,853
Share of loss before tax of associate		**–**	31
Share of tax credit of associate		**–**	(8,282)
Write-off of hotel pre-operating expenses		**–**	9,925
Direct expenses incurred for rental income		**4,435**	4,388

10. STAFF COSTS

	2008 *HK$'000*	2007 *HK$'000*
Staff costs (including directors' emoluments) comprise:		
Basic salaries and other benefits	**67,694**	39,273
Bonuses	**5,704**	7,144
Equity-settled share-based payment expenses	**1,478**	3,768
Contributions to defined contribution pension plans	**2,700**	1,388
	77,576	51,573
Less: Amount capitalised as properties held for/under development	**(6,251)**	(4,951)
Staff costs charged to consolidated income statement	**71,325**	46,622

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

11. DIRECTORS' EMOLUMENTS

The aggregate amounts of the directors' emoluments, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Fees *HK$'000*	Salaries and other benefits *(note (i))* *HK$'000*	Bonuses *(note (ii))* *HK$'000*	Equity-settled share-based payment expenses *HK$'000*	Contributions to defined contribution pension plans *HK$'000*	Total *HK$'000*
2008						
Executive directors						
Yu Pan	**–**	**2,291**	**–**	**–**	**12**	**2,303**
Lau Yat Tung, Derrick	**–**	**819**	**–**	**187**	**12**	**1,018**
Wen Xiao Bing *(resigned on 23 December 2008)*	**120**	**999**	**–**	**313**	**19**	**1,451**
Wong Lok	**–**	**260**	**–**	**–**	**12**	**272**
Non-executive director						
Jerry Wu	**200**	**–**	**–**	**–**	**–**	**200**
Independent non-executive directors						
Choy Shu Kwan	**200**	**–**	**–**	**37**	**–**	**237**
Cheng Wing Keung, Raymond	**200**	**–**	**–**	**37**	**–**	**237**
Chung Lai Fong	**200**	**–**	**–**	**37**	**–**	**237**
	920	**4,369**	**–**	**611**	**55**	**5,955**
2007						
Executive directors						
Yu Pan	–	2,246	580	–	12	2,838
Lau Yat Tung, Derrick	–	780	278	458	12	1,528
Wen Xiao Bing	100	605	443	763	18	1,929
Wong Lok	–	260	–	–	12	272
Non-executive director						
Jerry Wu *(appointed on 6 September 2007)*	64	–	–	–	–	64
Independent non-executive directors						
Choy Shu Kwan	150	–	–	92	–	242
Cheng Wing Keung, Raymond	150	–	–	92	–	242
Chung Lai Fong	150	–	–	91	–	241
	614	3,891	1,301	1,496	54	7,356

11. DIRECTORS' EMOLUMENTS (Continued)

There was no arrangement under which a Director has waived or agreed to waive any emoluments during the current and prior years.

Notes:

(i) Salaries and other benefits included basic salaries, housing and other allowances and benefits-in-kind.

(ii) Bonuses were not contractual but were discretionarily provided based on the Directors' performance. The amounts of entitlement were subject to approval by the Remuneration Committee of the Company.

12. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group during the year, two (2007: three) were directors of the Company whose emoluments are included in note 11 above. The emoluments of the remaining three (2007: two) individuals are as follows:

	2008	2007
	HK$'000	*HK$'000*
Basic salaries and other benefits	**3,440**	2,885
Bonuses	**205**	551
Equity-settled share-based payment expenses	**233**	610
Contributions to defined contribution pension plans	**12**	12
	3,890	4,058

Their emoluments were within the following bands:

	Number of employees	
	2008	2007
HK$Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**3**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

13. INCOME TAX CREDIT

	2008 HK$'000	2007 HK$'000
Current tax		
Hong Kong profits tax		
– under provision in respect of prior years	–	(620)
Overseas corporate tax		
– current year	(9,010)	(5,740)
– over (under) provision in respect of prior years	1,282	(43)
PRC land appreciation tax		
– current year	(22,917)	–
– over provision in respect of prior years	–	2,631
	(30,645)	(3,772)
Deferred tax *(Note 35)*		
– current year	53,982	6,522
– over provision in respect of prior years	26,333	–
– attributable to decrease in tax rate	–	58,489
	80,315	65,011
Total income tax credit	49,670	61,239

No provision for Hong Kong profits tax has been made for the year ended 31 December 2008 (2007: HK$Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2007: 17.5%) for the year.

Enterprise income tax ("EIT") arising from other regions of the PRC is calculated at 25% (2007: 33%) of the estimated assessable profits. Taxation for the Group's operations outside Hong Kong is provided at the applicable current rates of taxation on the estimated assessable profits in the relevant jurisdiction during the year.

The provision of PRC LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

13. INCOME TAX CREDIT (Continued)

The income tax credit for the year can be reconciled to the profit before income tax expense per the consolidated income statement as follows:

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax	**634,678**	160,096
Tax calculated at the applicable income tax rate of 25% (2007: 33%)	**(158,670)**	(52,832)
Effect of different tax rates of entities operating in other jurisdictions	**82,749**	34,171
Tax effect of expenses not deductible for tax purposes	**(59,998)**	(42,734)
Tax effect of revenue not subject to tax	**161,359**	74,127
Tax effect of tax losses not recognised during the year	**–**	(16,541)
Tax effect of recognition of unrecognised tax losses in prior years	**2,119**	–
Effect of change in tax rate under the PRC's new tax law on deferred tax assets/liabilities	**–**	58,489
Over-provision in respect of prior years	**27,615**	1,968
Tax effect of other temporary difference not recognised	**(8,102)**	4,658
Others	**2,598**	(67)
Income tax credit	**49,670**	61,239

14. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$890,001,000 (2007: HK$248,400,000).

15. DIVIDENDS

The Directors do not recommend payment of any dividend for the year ended 31 December 2008 (2007: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

16. EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic and diluted earnings (loss) per share is based on the profit attributable to ordinary equity holders of the Company and the following data:

	2008	2007
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share	**685,128**	209,078
Effect of dilutive potential ordinary shares:		
Fair value changes in financial derivative liabilities in relation to convertible notes	**(976,924)**	(267,789)
Finance costs on convertible notes (excluding capitalised interest)	**90,811**	33,360
Loss for the purposes of diluted loss per share	**(200,985)**	(25,351)

	Number of shares	
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,477,291**	1,201,764
Effect of dilutive potential ordinary shares:		
– Bonus warrants	**13,256**	61,639
– Convertible notes	**–**	173,518
– Share options	**–**	12,074
Weighted average number of ordinary shares for the purposes of diluted loss per share	**1,490,547**	1,448,995

17. PROPERTY, PLANT AND EQUIPMENT

The Group	Hotel properties and leasehold improvements *HK$'000*	Office building and leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost					
At 1 January 2007	–	–	828	1,547	2,375
Additions	–	–	33,421	1,164	34,585
Transfer from properties under development *(Note 20)*	913,410	42,134	–	–	955,544
Acquired through acquisition of subsidiaries	–	–	619	1,250	1,869
Exchange differences	66,013	1,342	1,091	132	68,578
At 31 December 2007 and at 1 January 2008	**979,423**	**43,476**	**35,959**	**4,093**	**1,062,951**
Additions	**23,932**	**4,564**	**19,383**	**1,315**	**49,194**
Disposals	**–**	**–**	**(13)**	**–**	**(13)**
Exchange differences	**56,892**	**2,510**	**2,518**	**192**	**62,112**
At 31 December 2008	**1,060,247**	**50,550**	**57,847**	**5,600**	**1,174,244**
Accumulated depreciation					
At 1 January 2007	–	–	394	258	652
Depreciation for the year	36,139	305	6,477	900	43,821
Exchange differences	1,078	9	228	76	1,391
At 31 December 2007 and at 1 January 2008	**37,217**	**314**	**7,099**	**1,234**	**45,864**
Depreciation for the year	**59,815**	**2,147**	**14,689**	**1,341**	**77,992**
Disposals	**–**	**–**	**(7)**	**–**	**(7)**
Exchange differences	**2,736**	**39**	**544**	**89**	**3,408**
At 31 December 2008	**99,768**	**2,500**	**22,325**	**2,664**	**127,257**
Net book value					
At 31 December 2008	**960,479**	**48,050**	**35,522**	**2,936**	**1,046,987**
At 31 December 2007	942,206	43,162	28,860	2,859	1,017,087

18. PREPAID LEASE PAYMENTS

The Group	2008 *HK$'000*	2007 *HK$'000*
Cost		
At beginning of year	**681,950**	182
Acquired through acquisition of subsidiaries	**–**	632,987
Additions	**637,936**	–
Recognised as cost of properties sold	**(94,269)**	(191)
Exchange differences	**44,754**	48,972
At end of year	**1,270,371**	681,950
Accumulated amortisation		
At beginning of year	**12,951**	14
Amortisation for the year		
– Capitalised as properties held for/under development	**8,161**	6,441
– Charged to consolidated income statement	**20,770**	6,323
Eliminated upon sale of properties	**(3,774)**	(17)
Exchange differences	**995**	190
At end of year	**39,103**	12,951
Net book value		
At end of year	**1,231,268**	668,999
The prepaid lease payments are analysed for reporting purposes as follows:		
Non-current assets	**736,550**	223,808
Current assets	**494,718**	445,191
	1,231,268	668,999
The Group's prepaid lease payments represent:		
Long-term leases in the PRC	**621,005**	–
Medium-term leases in the PRC	**610,263**	668,999
	1,231,268	668,999

19. INVESTMENT PROPERTIES

The Group	2008 HK$'000	2007 HK$'000
At beginning of year	**492,325**	475,248
Change in fair value	**(119,263)**	(22,926)
Exchange differences	**28,481**	40,003
At end of year	**401,543**	492,325

Details of assessment of the fair value are set out in note 25.

20. PROPERTIES HELD FOR/UNDER DEVELOPMENT

Properties held for/under development in the PRC are as follows:

The Group	2008 HK$'000	2007 HK$'000
Land use right	**151,225**	125,943
Premium paid for the acquisition of the interest of the land, demolition and settlement costs	**1,400,227**	1,313,200
Construction cost	**101,711**	16,443
Others	**179,466**	73,753
	1,832,629	1,529,339
Less: Accumulated impairment loss	**(71,151)**	–
	1,761,478	1,529,339
Less: Assets classified as held for sale *(Note 30)*	**(712,343)**	–
	1,049,135	1,529,339
Representing:		
Properties held for development	**962,867**	1,529,339
Properties under development	**86,268**	–
	1,049,135	1,529,339

Land use right comprises cost of acquiring rights to using certain pieces of land, which are all located in the PRC, for property development over fixed periods of time which are to be defined within the range between 40 and 70 years. The land use right certificate in respect of one of the development projects with carrying amount of HK$88,840,000 (2007: HK$62,888,000) has not been obtained at the balance sheet date. The holders of the Notes have the Right to redeem part of the Notes if this land use right certificate cannot be obtained on or before 31 March 2009, as disclosed in notes 33 and 47(b).

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For the year ended 31 December 2008

20. PROPERTIES HELD FOR/UNDER DEVELOPMENT (Continued)

The following table reconciles the movement of the carrying amount of properties held for/under development during the year:

The Group	*Notes*	**2008** *HK$'000*	2007 *HK$'000*
At beginning of year		**1,529,339**	698,945
Additions			
– Capitalisation of prepaid lease payments		**8,161**	6,441
– Capitalisation of depreciation of properties, plant and equipment		**6**	18
– Capitalisation of finance costs		**82,958**	75,620
– Others additions		**124,936**	259,815
Acquired through acquisition of subsidiaries		**–**	1,915,138
Transfer to properties held for sale		**–**	(590,417)
Transfer to property, plant & equipment		**–**	(955,544)
Impairment loss charged against property revaluation reserve	*37*	**(71,151)**	–
Reclassified as assets held for sale	*30*	**(712,343)**	–
Exchange differences		**87,229**	119,323
At end of year		**1,049,135**	1,529,339

21. GOODWILL

The Group	**2008** *HK$'000*	2007 *HK$'000*
Cost		
At beginning of year	**118,088**	49,655
Reclassification upon associate becoming a subsidiary	**–**	3,692
Acquired through acquisition of subsidiaries	**–**	64,741
Exchange differences	**16,739**	–
At end of year	**134,827**	118,088
Accumulated impairment loss		
At beginning of year	**–**	–
Impairment loss recognised during the year	**66,511**	–
At end of year	**66,511**	–
Net book value		
At end of year	**68,316**	118,088

21. GOODWILL (Continued)

Goodwill acquired through business combinations has been allocated to the following CGUs, namely hotel operation and property development, for impairment testing:

Project	Attributable CGU	*Notes*	**2008** *HK$'000*	2007 *HK$'000*
Westin Project – hotel	Hotel operation	*(a)*	**31,667**	27,918
Westin Project – office sales	Property development	*(a)*	**21,111**	18,612
Zhoutouzui Project	Property development	*(b)*	**15,538**	67,866
Tianhe Project	Property development	*(c)*	**–**	3,692
			36,649	90,170
			68,316	118,088

Notes:

(a) Westin Project refers to the operation of a hotel tower, The Westin Guangzhou, and property sale of office units in a commercial building, the Skyfame Tower which is annexed to The Westin Guangzhou, located at the central business district of Guangzhou, the PRC. The acquisition of the Westin Project was completed on 4 May 2007. The carrying amounts of the property costs representing The Westin Guangzhou and the Skyfame Tower are included in property, plant and equipment and properties held for sale in notes 17 and 24, respectively, to the financial statements.

(b) Zhoutouzui Project refers to the development project located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The Group acquired 51% interest in the Zhoutouzui Project in 2006 and further increased its interest to 100% through a step-up acquisition which was completed on 4 June 2007. The project has not yet commenced construction as the land use right certificate and necessary permits in respect of the development area have not yet been obtained. The project may only generate cash in the years beyond the expected time horizon. Taking into these circumstances, the Directors take prudent view to write off substantial amount of the associated goodwill. The carrying amount of property development costs in relation to the Zhoutouzui Project is included in properties held for/under development in note 20 to the financial statements.

(c) Tianhe Project refers to the development project located at Tianhe North Road, Tianhe District, Guangzhou, the PRC. The Group acquired 49% interest in the Tianhe Project in 2005 and further acquired the remaining 51% interest which was completed on 27 July 2007. As at 31 December 2008, the Group was in the process of negotiation with interested purchasers. On 24 February 2009, the Group entered into a framework agreement to dispose of its 80% equity interest in the project. In view of the imminent disposal, the associated goodwill is fully written off. The carrying amount of property development costs in relation to the Tianhe Project is included in assets classified as held for sale in note 30 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

21. GOODWILL (Continued)

Impairment test for goodwill

The Group operates in two CGUs which are hotel operation and property development. The recoverable amounts of the CGUs are determined using value-in-use calculations. These calculations use cash flow projections based on financial budgets of these CGUs which were approved by management covering a five-year period with key assumptions including revenue, direct costs and other operating expenses being referenced to past performance and management's reasonable expectations on the business outlook of these CGUs.

Key assumptions are as follows:

CGU	Discount rate	Operating margin	Growth rate after the fifth year from the start of projection
As at 31 December 2008			
Hotel operation	**8%**	**32% – 36%**	**4%**
Property development	**8%**	**18% – 48%**	**4% – 5%**
As at 31 December 2007			
Hotel operation	10%	38% – 40%	5%
Property development	10%	22% – 53%	5%

Discount rates are based on the Group's beta adjusted to reflect management's assessment of specific risks related to each of the CGUs. Operating margins are based on past experience. Growth rates beyond the fifth year from the start of the projection are based on economic data pertaining to the region concerned.

For the year ended 31 December 2008, impairment loss on goodwill of approximately HK$66,511,000 was provided. The Directors performed an impairment test for the goodwill and concluded that the recoverable amounts of the Zhoutouzui and Tianhe Projects under the CGU of property development was substantially lower than its carrying amount. Therefore a provision has been made for the goodwill. Other than this impairment loss, where the CGUs demonstrate sufficient cashflow projection that justify the carrying value of the goodwill, management did not consider impairment of goodwill necessary.

22. INTERESTS IN SUBSIDIARIES

The Company	Notes	2008 HK$'000	2007 HK$'000
Unlisted investment, at cost	(a)	**49,208**	49,208
Amounts due from subsidiaries – non-current portion	(b)	**2,690,776**	2,408,447
Interest in subsidiaries – non-current portion		**2,739,984**	2,457,655
Amounts due from subsidiaries – current portion	(c)	**42,882**	12,803
		2,782,866	2,470,458
Amount due to subsidiary – current portion	(c)	**123**	–

Notes:

(a) Details of the Company's principal subsidiaries as at 31 December 2008 are as follows:

Name of subsidiaries	Place of incorporation/ establishment	Particulars of issued ordinary shares/paid-up capital	Percentage of interest held by the Company Directly	Percentage of interest held by the Company Indirectly	Principal activities
Chain Up Limited	BVI	US$1	100%	–	Investment holding
Fine Luck Group Limited	BVI	US$1	100%	–	Investment holding
Great Elegant Investment Limited	BVI	US$100	–	100%	Investment holding
廣州市城建天譽房地產開發有限公司 (Guangzhou Cheng Jian Tianyu Real Estate Development Company Limited) ("CJTY")	PRC	US$45,000,000	–	100%	Property development and hotel operation in the PRC
廣州市創譽房地產開發有限公司 (Guangzhou Chuangyu Real Estate Development Company Limited) ("Chuangyu")	PRC	US$6,000,000	–	100%	Property investment in the PRC
廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Real Estate Development Company Limited) ("HC")	PRC	RMB220,000,000	–	100%	Property development in the PRC
廣州譽浚咨詢服務有限公司 (Guangzhou Yu Jun Consulting Service Company Limited) ("Yu Jun")	PRC	HK$5,000,000	–	100%	Investment holding and provision of property development project management services in the PRC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

22. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(a) Details of the Company's principal subsidiaries as at 31 December 2008 are as follows: (Continued)

Name of subsidiaries	Place of incorporation/ establishment	Particulars of issued ordinary shares/paid-up capital	Percentage of interest held by the Company Directly	Indirectly	Principal activities
Guangzhou Zhoutouzui Development Limited ("GZ ZTZ")	Hong Kong	HK$100	–	100%	Investment holding
貴州譽浚房地產開發有限公司 (Guizhou Yu Jun Real Estate Development Company Limited)	PRC	RMB50,000,000	–	55%	Property development in the PRC
Long World Trading Limited	BVI	US$1	–	100%	Investment holding
Nicco Limited	BVI	US$100	–	100%	Investment holding
Skyfame Management Services Limited	Hong Kong	HK$1	100%	–	Provision of management services to group entities
Smartford Limited	BVI	US$100	–	100%	Investment holding
Sky Honest Investments Corp.	BVI	US$1	–	100%	Investment holding
Yaubond Limited	BVI	US$18,813,500	–	100%	Investment holding
Yue Tian Development Limited	Hong Kong	HK$72,000	–	100%	Investment holding
Winprofit Investments Limited	BVI	US$100	100%	–	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group.

CJTY, HC, Chuangyu and Yu Jun are wholly foreign-owned enterprises established with limited liability in the PRC.

None of the subsidiaries had any debt securities outstanding at the end of the current and prior years or at any time during the current and prior years.

(b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment but are expected not to be repayable within twelve months from the balance sheet date.

(c) The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

23. INTERESTS IN JOINTLY CONTROLLED ENTITY

The Group

The Company holds indirectly 100% interest in a jointly controlled entity, 廣州市譽城房地產開發有限公司 (Guangzhou Yucheng Real Estate Development Limited) ("Yucheng"), which is accounted for in the consolidated financial statements of the Group by proportionate consolidation as detailed in note 4(c) to the financial statements. Yucheng is a sino-foreign co-operative joint venture company established in the PRC for a renewal term of 15 years commencing on 5 March 2003. Details of the Group's interests in the jointly controlled entity are as follows:

Place and date of establishment	Registered capital	Paid-up capital	Attributable equity interest indirectly held by the Company	Principal activity
PRC, 31 March 2003	US$50,000,000	US$22,000,000 (2007: US$12,000,000)	100% *(Note)*	Property development in the PRC

Note: Under the terms of the sino-foreign co-operative joint venture agreement entered into by the parties, (i) GZ ZTZ is obligated for 100% of the capital of and investment in Yucheng; (ii) GZ ZTZ paid RMB10 million to 廣州越秀企業(集團)公司 (Guangzhou Yuexiu Enterprise (Group) Company Limited) ("Yuexiu") as cash compensation in 2005, which has been included in properties held for development, and Yuexiu is then no longer entitled to any profit or loss generated by Yucheng; (iii) 廣州港集團有限公司 (Guangzhou Port Group Co., Limited) ("GZ Port") will be entitled to 28% of the total gross floor area of the residential units of the project upon completion of the proposed development and after which, GZ Port will no longer be entitled to any profit or loss generated by Yucheng; and (iv) GZ ZTZ will be entitled to 72% of the total gross floor area of the residential units of the project upon completion of the proposed development and the entire profit or loss to be generated by Yucheng.

The following amounts have been recognised in the Group's consolidated financial statements relating to Yucheng:

The Group	2008 *HK$'000*	2007 *HK$'000*
Non-current assets	**512,806**	436,362
Current assets	**670**	659
Current liabilities	**(28,910)**	(4,517)
Net assets	**484,566**	432,504
Revenue	**86**	–
Net expenses	**(4,275)**	–
Loss before income tax	**(4,189)**	–
Income tax	**–**	–
Loss after income tax	**(4,189)**	–

24. PROPERTIES HELD FOR SALE

The Group	2008 HK$'000	2007 HK$'000
Completed properties held for sale	**573,808**	603,427

All completed properties held for sale are located in the PRC.

25. ANALYSIS OF PROPERTIES

(a) The analysis of the net book value of completed properties is as follows:

The Group	2008 HK$'000	2007 HK$'000
Medium-term lease land in the PRC		
– Hotel properties, including leasehold improvements	**960,479**	942,206
– Office building, including leasehold improvements	**48,050**	43,162
– Investment properties	**401,543**	492,325
– Properties held for sale	**573,808**	603,427
	1,983,880	2,081,120

(b) The investment properties were revalued on an open market value basis by an independent firm of professional valuers, DTZ Debenham Tie Leung Limited, Chartered Surveyors, as at 31 December 2008.

(c) The Group's hotel properties, office building, investment properties and properties held for sale with an aggregate carrying amount as shown above are pledged to secure bank borrowings of the Group, as disclosed in note 32 to the financial statements, as at 31 December 2008.

(d) Gross rental income from investment properties and properties held for sale amounted to HK$19,345,000 (2007: HK$18,547,000) and HK$32,487,000 (2007: HK$1,915,000) respectively during the year ended 31 December 2008.

26. INVENTORIES

The Group	2008 HK$'000	2007 HK$'000
Food and beverages	**2,513**	2,439
Hotel consumable goods and supplies	**17,029**	29,351
	19,542	31,790

27. TRADE AND OTHER RECEIVABLES

The following is an ageing analysis of trade receivables at the balance sheet date:

		The Group		The Company	
		2008	2007	**2008**	2007
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current or less than 1 month		**4,191**	3,988	**–**	–
1 to 3 months		**1,000**	1,892	**–**	–
More than 3 months but less than 12 months		**122**	1,154	**–**	–
More than 1 year		**575**	603	**–**	–
Total trade receivables	*(a), (c)*	**5,888**	7,637	**–**	–
Loan receivable	*(b)*	**–**	9,192	**–**	–
Deposits, prepayments and other receivables	*(a)*	**28,012**	14,187	**647**	1,605
	(c)	**33,900**	31,016	**647**	1,605

Notes:

(a) Total trade and other receivables include amounts due from related companies, which are controlled by Mr. Yu Pan, controlling shareholder of the Company, of HK$1,204,000 (2007: HK$Nil). The maximum balance of these amounts due from related companies during the year amounted to HK$1,204,000 (2007: HK$Nil). The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The Group's formal credit policy in place is to monitor the Group's exposure to credit risk through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

(b) The loan receivable is unsecured, charges interest at a rate of 6.58% per annum and was fully repaid in January 2008.

(c) The analysis of trade receivables which are past due but not impaired is as follows:

	2008	2007
The Group	***HK$'000***	*HK$'000*
1 to 3 months past due	**466**	1,535
More than 3 months but less than 12 months past due	**9**	917
More than 1 year past due	**575**	603
	1,050	3,055

The balances that are past due but not impaired related to a number of customers who have a good track record with the Group. Based on past experience, management estimates that the carrying amounts could be fully recovered.

The balances of other classes within trade and other receivables of the Group and of the Company are neither past due nor impaired.

The Group and the Company did not make any impairment loss on trade and other receivables during the year (2007: HK$Nil).

28. RESTRICTED AND PLEDGED DEPOSITS

The Group and the Company

As at 31 December 2008, to secure for the repayment of interests accrued in the convertible notes (as disclosed in note 33) and the Term Loan payable to two financial institutions (as disclosed in note 32), bank deposits totalling approximately HK$67,737,000 of the Group and HK$46,311,000 of the Company (2007: HK$358,711,000 of the Group and HK$337,528,000 of the Company) have been charged in favour of the security trustees acting for the convertible noteholders and two financial institutions.

29. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Short-term bank deposits	**46,311**	346,727	**46,311**	346,727
Cash at bank and in hand	**75,146**	75,322	**114**	480
	121,457	422,049	**46,425**	347,207
Less: Restricted and pledged deposits	**(67,737)**	(358,711)	**(46,311)**	(337,528)
	53,720	63,338	**114**	9,679

30. ASSETS AND LIABILITIES OF DISPOSAL GROUP HELD FOR SALE

The assets and liabilities attributable to the Tianhe Project, which is determined to be disposed of as at 31 December 2008, have been included in the consolidated balance sheet as assets classified as held for sale and liabilities associated with assets classified as held for sale respectively. The proposed disposal, the details of which are disclosed in note 47(a), will not lead to discontinued operation since the scale of property development business of the Group will not be significantly curtailed. The carrying amounts of the major assets and liabilities in this disposal group as at 31 December 2008 are as follows:

		2008
The Group	*Notes*	***HK$'000***
Assets classified as held for sale		
Properties held for development	*20*	**712,343**
Other assets		**1,056**
		713,399
Liabilities associated with assets classified as held for sale		
Deferred tax liabilities	*35*	**107,787**
Other liabilities		**1,097**
		108,884
Net assets classified as held for sale		**604,515**

31. TRADE AND OTHER PAYABLES

		The Group		The Company	
		2008	2007	**2008**	2007
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current or less than 1 month		**35,678**	8,462	**–**	–
1 to 3 months		**2,761**	3,467	**–**	–
More than 3 months but less than 12 months		**986**	1,583	**–**	–
More than 12 months		**5,761**	4,743	**–**	–
Total trade payables		**45,186**	18,255	**–**	–
Retention money payable for construction costs	*(a)*	**3,888**	25,649	**–**	–
Construction costs payable		**62,688**	128,944	**–**	–
Balance of consideration payable for acquisition of a subsidiary	*(b)*	**63,573**	63,573	**–**	–
Advanced payments received from customers	*(c)*	**22,140**	8,196	**–**	–
Accruals and other payables		**85,859**	60,860	**1,020**	1,942
		283,334	305,477	**1,020**	1,942
Amounts due within one year included in current liabilities		**(219,761)**	(241,904)	**(1,020)**	(1,942)
Amounts due after one year		**63,573**	63,573	**–**	–

Notes:

(a) For retention money payable in respect of construction contracts, the due dates are usually one year after the completion of the construction work but are within the normal operating cycle of the property development business of the Group.

(b) This represents the balance of consideration payable to the vendor for acquisition of a subsidiary in 2006. The amount is expected to be settled in the form of a two-year promissory note which will be issued upon obtaining the land use right certificate attributable to one of the property development projects, bearing an interest rate of 8% per annum from the date of issue.

By virtue of a supplemental agreement dated 20 October 2008 entered into with the creditor, commencing 1 January 2009, the terms of the amount payable were changed to interest-bearing at a rate of 20% per annum, unsecured, and the principal together with accrued interest being repayable on or before 31 December 2010.

(c) The amount comprises receipts in advance, rental and other deposits from customers and tenants. The balance includes amounts due to related companies, which are controlled by Mr. Yu Pan, controlling shareholder of the Company, of HK$1,737,000 (2007: HK$262,000).

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32. BANK AND OTHER BORROWINGS

The Group	Notes	2008 HK$'000	2007 HK$'000
Interest-bearing, secured			
– bank borrowings	*(a)*	**1,070,441**	963,129
– other borrowings	*(b)*	**220,000**	220,000
Interest-bearing, unsecured			
– other borrowings	*(c)*	**32,267**	–
		1,322,708	1,183,129

Notes:

(a) As at 31 December 2008, the bank borrowings are secured by mortgages of ownership titles of (i) properties held for sale excluding those contracted to be sold; (ii) prepaid lease payments; (iii) hotel properties and office building included in property, plant and equipment; and (iv) investment properties with an aggregate carrying amount of approximately HK$2,522,345,000 (2007: approximately HK$2,750,119,000). The bank loans carry interest at variable market rates ranging from 6.73% to 7.44% per annum (2007: 6.50% to 8.22% per annum). The amounts will be fully repaid in 2013, 2015 and 2018.

(b) The balance of the Term Loan advanced from two financial institutions is secured by a time deposit of approximately HK$21,426,000 (2007: HK$21,183,000), mortgage of shares in certain subsidiaries, assignment of interest and benefits in the shareholder's loans to subsidiaries, and fixed and floating charges of assets in certain subsidiaries of the Company which are engaged in property development, and is repayable on 29 January 2009. It carries variable interest at the rate of HIBOR plus 10.25% per annum (2007: HIBOR plus 8.25% per annum).

The Term Loan has become overdue and remains outstanding at the date of authorisation for issue of the consolidated financial statements, but the lenders, having made certain standstill arrangements, agreed to refrain from exercising their rights to remedies as stipulated in the loan agreements until 17 April 2009 as stated in note 3(c).

(c) The balance carries interest at the rate of 20% per annum and is unsecured and repayable in 2009.

32. BANK AND OTHER BORROWINGS (Continued)

At the balance sheet date, the bank and other borrowings were repayable as follows:

The Group	**2008** *HK$'000*	2007 *HK$'000*
On demand or within one year	**280,228**	242,790
More than one year, but not exceeding two years	**27,961**	23,643
More than two years, but not exceeding five years	**83,825**	46,441
After five years	**930,694**	870,255
	1,322,708	1,183,129
Amounts due within one year included in current liabilities	**(280,228)**	(242,790)
Amounts due after one year	**1,042,480**	940,339

33. CONVERTIBLE NOTES AND FINANCIAL DERIVATIVE LIABILITIES

The Group and the Company

The convertible notes in the aggregate principal amount of US$200,000,000 (equivalent to approximately HK$1,562,380,000) were issued on 4 May 2007. The Notes bear a coupon of 4% per annum payable semi-annually in arrear, maturity terms of 6 years and an annual yield-to-maturity of 15%. The Notes are convertible for ordinary shares of the Company at the adjusted price of HK$1.00 per share under the stipulated reset mechanism on 4 August 2008 (the initial conversion price being HK$1.35 per share). Unless previously redeemed, converted or repurchased and cancelled, the Company will redeem each note at 201.33% of its principal amount on the maturity date of 3 May 2013.

Each noteholder shall have the right to exercise the put options at three stages, (i) redeeming not exceeding 30% of the principal value of the Notes at the date of issue plus accrued interests on 4 May 2010; (ii) redeeming not exceeding 20% of the principal value of the Notes at the date of issue plus accrued interests on 4 November 2010; and (iii) redeeming all remaining outstanding principal plus accrued interests on 4 May 2011.

33. CONVERTIBLE NOTES AND FINANCIAL DERIVATIVE LIABILITIES (Continued)

The movements of loan and financial derivative liabilities components of the convertible notes are as follows:

The Group and the Company	Nominal value HK$'000	Carrying amount: Liability component HK$'000	Carrying amount: Financial derivative components HK$'000	Carrying amount: Total HK$'000
At 1 January 2007	–	–	–	–
Issue of convertible notes	1,562,380	175,545	1,386,835	1,562,380
Issue costs	–	(6,567)	–	(6,567)
Accrued interest expense	–	78,348	–	78,348
Interest paid	–	(30,311)	–	(30,311)
Conversion of convertible notes	(46,871)	(5,069)	(37,474)	(42,543)
Fair value changes in financial derivative liabilities	–	–	(267,789)	(267,789)
At 31 December 2007 and at 1 January 2008	**1,515,509**	**211,946**	**1,081,572**	**1,293,518**
Accrued interest expense	**–**	**156,571**	**–**	**156,571**
Interest paid	**–**	**(59,995)**	**–**	**(59,995)**
Conversion of convertible notes	**(15,624)**	**(2,185)**	**(11,486)**	**(13,671)**
Fair value changes in financial derivative liabilities	**–**	**–**	**(976,924)**	**(976,924)**
At 31 December 2008	**1,499,885**	**306,337**	**93,162**	**399,499**

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 60.58% (2007: 60.58%) to the liability component.

As at the balance sheet date, the face value of the outstanding Notes is US$192,000,000 (approximately HK$1,499,885,000).

As at 31 December 2008, the Group's obligations under convertible notes to the noteholders are secured by (i) restricted and pledged deposits of approximately HK$46,311,000 (2007: HK$337,528,000) (as disclosed in note 28); (ii) shares of certain subsidiaries of the Company which hold equity interest in other subsidiaries engaged in property development; and (iii) shares of the Company beneficially held by Mr. Yu Pan, the controlling shareholder of the Company, as disclosed in note 44(b).

33. CONVERTIBLE NOTES AND FINANCIAL DERIVATIVE LIABILITIES (Continued)

Under the Trust Deed dated 4 May 2007 and a supplemental deed dated 22 January 2008 followed by a special committee meeting of the noteholders, the noteholders have an automatic right to redeem notes in principal amount of US$75,000,000 (approximately HK$585,893,000) if the project company of the Zhoutouzui Project cannot obtain the land use right certificate for the project on or before 31 March 2009. By a consent from the committee members of noteholders on 31 March 2009, the noteholders agreed to extend the timeline to 31 May 2009 or, if a plan for a restructuring of the terms and conditions of the Notes can be agreed between the Company and the noteholders, such later date as the noteholders may agree, and to take standstill arrangement refrain from exercising their right of the Automatic Redemption prior to the extended date.

34. LOAN FROM MINORITY SHAREHOLDER OF A SUBSIDIARY

The Group

The balance is unsecured, interest-free and has no fixed terms of repayment but is agreed not to be repayable within the eighteen months from the balance sheet date.

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35. DEFERRED TAX LIABILITIES

Movements of the deferred tax liabilities during the year are as follows:

	Revaluation of properties			
The Group	**Prepaid lease payments** *HK$'000*	**Investment properties** *HK$'000*	**Properties held for development** *HK$'000*	**Total** *HK$'000*
At 1 January 2007	–	115,700	100,122	215,822
Reclassification upon associate becoming a subsidiary	–	–	4,317	4,317
Acquired through acquisition of subsidiaries	128,618	–	138,064	266,682
Credit to consolidated income statement	(1,179)	(34,500)	(29,332)	(65,011)
Exchange differences	9,260	9,917	12,574	31,751
At 31 December 2007 and at 1 January 2008	**136,699**	**91,117**	**225,745**	**453,561**
Credit to consolidated income statement	**(24,166)**	**(29,816)**	**(26,333)**	**(80,315)**
Credit to property revaluation reserve	**–**	**–**	**(17,788)**	**(17,788)**
Reclassified as liabilities associated with assets held for sale *(Note 30)*	**–**	**–**	**(107,787)**	**(107,787)**
Exchange differences	**7,673**	**5,271**	**13,059**	**26,003**
At 31 December 2008	**120,206**	**66,572**	**86,896**	**273,674**

As at 31 December 2008, the Group and the Company have estimated unutilised tax losses of approximately HK$62,127,000 (2007: HK$70,326,000) and HK$42,670,000 (2007: HK$14,216,000) respectively for offset against future assessable profits. The unrecognised tax losses may be carried forward indefinitely or up to five years from the year in which the loss was originated.

No deferred tax asset has been recognised in respect of these balances due to the unpredictability of future profit streams.

36. SHARE CAPITAL

(a) Authorised and issued share capital

The Group and the Company	Notes	Number of shares: Ordinary share of HK$0.01 each '000	Number of shares: Convertible preference share of HK$0.01 each '000	Number of shares: Total '000	Nominal value: Ordinary share capital HK$'000	Nominal value: Convertible preference share capital HK$'000	Nominal value: Total HK$'000
Authorised:							
At 1 January 2007		30,000,000	–	30,000,000	300,000	–	300,000
Change in authorised capital		(1,000,000)	1,000,000	–	(10,000)	10,000	–
At 31 December 2007 and 2008		**29,000,000**	**1,000,000**	**30,000,000**	**290,000**	**10,000**	**300,000**
Issued and fully paid:							
At 1 January 2007		1,089,871	145,537	1,235,408	10,899	1,455	12,354
Issue of shares:							
– Convertible preference shares		–	190,447	190,447	–	1,905	1,905
– Conversion of convertible preference shares		335,984	(335,984)	–	3,360	(3,360)	–
– Conversion of convertible notes		34,720	–	34,720	347	–	347
– Exercise of bonus warrants		5,272	–	5,272	53	–	53
At 31 December 2007 and at 1 January 2008		**1,465,847**	**–**	**1,465,847**	**14,659**	**–**	**14,659**
Issue of shares:							
– Conversion of convertible notes	*(i)*	**11,573**	**–**	**11,573**	**116**	**–**	**116**
– Exercise of bonus warrants	*(ii)*	**7**	**–**	**7**	**–**	**–**	**–**
– Exercise of share options	*(iii)*	**260**	**–**	**260**	**2**	**–**	**2**
At 31 December 2008		**1,477,687**	**–**	**1,477,687**	**14,777**	**–**	**14,777**

Notes:

(i) During the year, convertible notes in the principal value of US$2,000,000 were converted into ordinary shares of the Company at the conversion price of HK$1.35 per share, resulting in the issue of 11,573,184 ordinary shares of the Company.

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36. SHARE CAPITAL (Continued)

(a) Authorised and issued share capital (Continued)

Notes: (Continued)

(ii) In connection with the open offer on 3 August 2006, a bonus issue of 205,634,220 warrants were issued which are exercisable at an initial subscription price of HK$1.10 per share at any time during a two-year period ended 2 August 2008. The warrants expired on 1 August 2008.

During the year ended 31 December 2008, certain bonus warrant holders exercised the subscription rights to subscribe for 7,031 ordinary shares of the Company at the subscription price of HK$1.10 per share. All the remaining unexercised warrants which were issued in an open offer in 2006 expired on 1 August 2008.

(iii) During the year, 260,000 share options previously granted under the existing share option scheme were exercised as mentioned in note 38.

(b) Capital management policy

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it by adjusting applicable policies on dividend pay-out, return to shareholders and debt and equity raising or redemption, in the light of changes in economic conditions. There have been no material changes in these objectives and policies or processes during the current and prior years.

The Company monitors capital using gearing ratio, which is calculated as net debt to the summation of capital and net debt. Net debt includes bank and other borrowings, convertible notes, financial derivative liabilities, loan from minority shareholder of a subsidiary and other payable classified as non-current liabilities less cash and cash equivalents. Capital represents equity attributable to equity holders of the Company.

The gearing ratio as at the balance sheet date is as follows:

The Group	2008 *HK$'000*	2007 *HK$'000*
Total debt	**2,059,748**	2,540,220
Less: cash and cash equivalents	**(53,720)**	(63,338)
Net debt	**2,006,028**	2,476,882
Equity attributable to equity holders	**2,520,695**	1,686,682
Capital and net debt	**4,526,723**	4,163,564
Gearing ratio	**44.3%**	59.5%

37. RESERVES

The Group	Notes	Share premium HK$'000	Contributed surplus reserve HK$'000	Share-based payment reserve HK$'000	Property revaluation reserve HK$'000	Merger reserve HK$'000	Statutory reserves HK$'000	Other reserves HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007		724,718	15,497	3,584	–	(301,662)	6,108	–	19,264	241,657	709,166
Conversion of convertible notes		42,196	–	–	–	–	–	–	–	–	42,196
Conversion of convertible preference shares		59,757	–	–	–	–	–	–	–	–	59,757
Issue of shares:											
– Convertible preference shares		378,587	–	–	–	–	–	–	–	–	378,587
– Exercise of bonus warrants		5,747	–	–	–	–	–	–	–	–	5,747
Transfer among reserves		–	–	–	–	–	–	2,049	–	(2,049)	–
Recognition of equity-settled share-based payment expenses		–	–	12,562	–	–	–	–	–	–	12,562
Expenses incurred on issue of shares		(13)	–	–	–	–	–	–	–	–	(13)
Exchange differences arising on consolidation of overseas entities		–	–	–	–	–	–	–	165,827	–	165,827
Share of changes in reserves of associate		–	–	–	–	–	–	–	4,274	–	4,274
Surplus arising from revaluation upon acquisition of subsidiaries		–	–	–	84,842	–	–	–	–	–	84,842
Profit for the year		–	–	–	–	–	–	–	–	209,078	209,078
At 31 December 2007 and at 1 January 2008		**1,210,992**	**15,497**	**16,146**	**84,842**	**(301,662)**	**6,108**	**2,049**	**189,365**	**448,686**	**1,672,023**
Conversion of convertible notes	*36(a)(i)*	**13,555**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**13,555**
Issue of shares:											
– Exercise of bonus warrants	*36(a)(ii)*	**8**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8**
– Exercise of share options	*36(a)(iii)*	**411**	**–**	**(73)**	**–**	**–**	**–**	**–**	**–**	**–**	**338**
Transfer among reserves		**–**	**–**	**–**	**–**	**–**	**–**	**4,109**	**–**	**(4,109)**	**–**
Recognition of equity-settled share-based payment expenses		**–**	**–**	**1,478**	**–**	**–**	**–**	**–**	**–**	**–**	**1,478**
Reallocation of lapsed options from share-based payment reserve to retained profits		**–**	**–**	**(4,838)**	**–**	**–**	**–**	**–**	**–**	**4,838**	**–**
Expenses incurred on issue of shares		**(12)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12)**
Exchange differences arising on consolidation of overseas entities		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**186,763**	**–**	**186,763**
Impairment loss on properties held for development	*20*	**–**	**–**	**–**	**(71,151)**	**–**	**–**	**–**	**–**	**–**	**(71,151)**
Deferred tax credit directly recognised in equity	*35*	**–**	**–**	**–**	**17,788**	**–**	**–**	**–**	**–**	**–**	**17,788**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**685,128**	**685,128**
At 31 December 2008		**1,224,954**	**15,497**	**12,713**	**31,479**	**(301,662)**	**6,108**	**6,158**	**376,128**	**1,134,543**	**2,505,918**

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37. RESERVES (Continued)

The Company	Notes	Share premium HK$'000	Contributed surplus reserve HK$'000	Share-based payment reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007		724,718	15,497	3,584	18,116	761,915
Conversion of convertible notes		42,196	–	–	–	42,196
Conversion of convertible preference shares		59,757	–	–	–	59,757
Issue of shares:						
– Convertible preference shares		378,587	–	–	–	378,587
– Exercise of bonus warrants		5,747	–	–	–	5,747
Recognition of equity-settled share-based payment expenses		–	–	12,562	–	12,562
Expenses incurred on issue of shares		(13)	–	–	–	(13)
Profit for the year		–	–	–	248,400	248,400
At 31 December 2007 and at 1 January 2008		**1,210,992**	**15,497**	**16,146**	**266,516**	**1,509,151**
Conversion of convertible notes	*36(a)(i)*	**13,555**	**–**	**–**	**–**	**13,555**
Issue of shares:						
– Exercise of bonus warrants	*36(a)(ii)*	**8**	**–**	**–**	**–**	**8**
– Exercise of share options	*36(a)(iii)*	**411**	**–**	**(73)**	**–**	**338**
Recognition of equity-settled share-based payment expenses		**–**	**–**	**1,478**	**–**	**1,478**
Reallocation of lapsed options from share-based payment reserve to retained profits		**–**	**–**	**(4,838)**	**4,838**	**–**
Expenses incurred on issue of shares		**(12)**	**–**	**–**	**–**	**(12)**
Profit for the year		**–**	**–**	**–**	**890,001**	**890,001**
At 31 December 2008		**1,224,954**	**15,497**	**12,713**	**1,161,355**	**2,414,519**

37. RESERVES (Continued)

(a) The following describes the nature and purpose of each reserve within owners' equity:

Share premium	The amount relates to subscription for share capital in excess of nominal value. The application of the share premium account is governed by clause 150 of the Company's bye-laws and the Companies Act 1981 of Bermuda.
Contributed surplus reserve	The amount arose from the capital reduction, cancellation of share premium and part of which has been set-off against the accumulated losses of the Company as at 31 December 2004 pursuant to the capital re-organisation. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its equity holders out of the contributed surplus reserve under certain circumstances.
Share-based payment reserve	The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees and non-employees of the Group recognised in accordance with the accounting policy adopted for share based payments in note 4(q).
Property revaluation reserve	Gains/losses arising on revaluing the identifiable assets and liabilities of existing subsidiaries when the Group further acquired the equity interest in the subsidiaries from minority shareholders.
Merger reserve	The amount represents the difference between the fair value of combined capital of the Company and the carrying value of the assets and liabilities of the subsidiaries transferred to the Group pursuant to the acquisition of 100% interests in Long World Trading Limited.

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37. RESERVES (Continued)

(a) The following describes the nature and purpose of each reserve within owners' equity: (Continued)

Statutory reserves	In accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the articles of association, PRC subsidiaries of the Group were required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors, except that being a wholly foreign-owned enterprise, transfer of 10% of the net profit for each year to the statutory reserves is mandatory until the accumulated total of the fund reaches 50% of its registered capital. During the current and prior years, the Group has not made any appropriations to the staff and workers' bonus and welfare fund and enterprise expansion fund.
Other reserves	The amount represents the capital reserve fund contribution.
Foreign exchange reserve	The amount represents gains/losses arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(o).

(b) **Distributable reserves**

At 31 December 2008, the distributable reserves available for distribution to equity holders of the Company were HK$1,176,852,000 (2007: HK$282,013,000).

38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a resolution passed on 4 August 2005, a share option scheme was adopted (the "2005 Scheme"). The Company operates the 2005 Scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2005 Scheme include the Directors and other employees of the Group. The 2005 Scheme became effective on 5 August 2006 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the 2005 Scheme, the Directors are authorised, at their absolute discretion, to invite any employee (including the executive and non-executive Directors), executive or officer of any member of the Group or of any entity in which the Group holds equity interest and any supplier, consultant, adviser or customer of the Group or of any entity in which the Group holds equity interest who is eligible to participate in the 2005 Scheme, to take up options to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. of the total number of shares of the Company in issue as at the date of adoption of the 2005 Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10 per cent. limit under the 2005 Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the 2005 Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10 per cent. of the total number of shares in issue as at the date of approval of the limit. Options previously granted under the 2005 Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the other scheme(s) or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Notwithstanding aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2005 Scheme and any other share option schemes of the Company must not exceed 30 per cent. of the total number of shares in issue from time to time.

The total number of Company's shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1 per cent. of the total number of shares in issue at the offer date (the "Individual Limit"). Any further grant of options in excess of the Individual Limit must be subject to the shareholders' approval in general meeting with such participant and his, her or its associates abstaining from voting.

The exercise price in respect of any particular option shall be such price as determined by the board of Directors (the "Board") in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the offer date; and (iii) the nominal value of the shares in the Company.

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38. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The offer of a grant of share options must be accepted not later than 21 days after the date of the offer, upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determined by the Board, save that such period shall not be more than a period of ten years from the date upon which the share options are granted or deemed to be granted and accepted.

The options are exercisable six months (or a later date as determined by the Directors) after the date on which the options are granted for a period up to ten years or 31 July 2015, whichever is earlier. Each option gives the holder the right to subscribe for one ordinary share in the Company.

During the year, no share option was granted under the 2005 Scheme.

The following table discloses the details of the Company's options under the 2005 Scheme held by employees (including Directors) and non-employees, and the movement of these holdings during the year:

Date of grant	Exercise period	Vesting period	Exercise price	Number of options outstanding at beginning of year	Options exercised during the year	Transfer during the year	Options lapsed during the year	Number of options outstanding at end of year
12 September 2006	13 March 2007 to 31 July 2015	Six months from the date of grant	HK$1.31	**21,268,000**	**(260,000)**	**–**	**(5,668,000)**	**15,340,000**
12 September 2006	13 March 2008 to 31 July 2015	One and a half years from the date of grant	HK$1.31	**21,268,000**	**–**	**–**	**(5,928,000)**	**15,340,000**
12 September 2006	13 March 2009 to 31 July 2015	Two and a half years from the date of grant	HK$1.31	**21,314,000**	**–**	**–**	**(5,944,000)**	**15,370,000**
				63,850,000	**(260,000)**	**–**	**(17,540,000)**	**46,050,000**
Analysis of category:								
Directors				9,800,000	–	(5,000,000)	–	4,800,000
Other employees				14,900,000	(260,000)	5,000,000	(2,540,000)	17,100,000
Non-employees				39,150,000	–	–	(15,000,000)	24,150,000
				63,850,000	(260,000)	–	(17,540,000)	46,050,000

The Group recognised HK$1,478,000 as equity-settled share-based payment expenses for the year ended 31 December 2008 (2007: HK$12,562,000) in relation to share options granted by the Company.

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before income tax to net cash generated from (used in) operating activities

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax	**634,678**	160,096
Adjustments for:		
Finance costs	**189,957**	79,877
Finance income	**(2,982)**	(14,089)
Equity-settled share-based payment expenses	**1,478**	12,562
Depreciation of property, plant and equipment	**77,986**	43,803
Amortisation of prepaid lease payments	**20,770**	6,323
Prepaid lease payments recognised as cost of sales	**90,495**	174
Increase in fair value of financial asset at fair value through profit or loss	**–**	(29)
Fair value changes in financial derivative liabilities		
– convertible notes	**(976,924)**	(267,789)
– convertible preference shares	**–**	11,507
Share of profit of associate, net of tax	**–**	(8,251)
Discount on business combinations	**–**	(67,965)
Loss on disposal of property, plant and equipment	**2**	–
Fair value changes in investment properties	**119,263**	22,926
Impairment loss on goodwill	**66,511**	–
Waiver of amount due from a director arising from business combination under common control	**–**	12,853
Operating profit (loss) before working capital changes	**221,234**	(8,002)
Decrease (increase) in properties held for sale	**63,280**	(77,510)
Decrease (increase) in inventories	**13,951**	(30,863)
Increase in trade and other receivables	**(1,442)**	(9,090)
Increase in trade and other payables	**14,012**	61,318
Increase in deferred income	**3,779**	–
Cash generated from (used in) operations	**314,814**	(64,147)
Income tax paid	**(8,320)**	(252)
Other borrowing costs paid	**(4,781)**	(1,296)
Interest paid	**(164,051)**	(93,238)
Net cash from (used in) operating activities	**137,662**	(158,933)

40. EMPLOYEE RETIREMENT BENEFITS

Defined contribution pension plans

As stipulated by the labour regulations of the PRC, the Group participates in a defined contribution pension plan organised by the municipal and provincial governments for the benefits of its employees. The Group is required to make contributions to the pension plan at ranges of specified percentages of the eligible employees' salaries.

The Group also participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously participating in the defined contribution retirement plan as mentioned above. The MPF Scheme is a defined contribution pension scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at the rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. The Group's contributions vest fully in the employees when contributed into the MPF Scheme.

Under both plans, the Group has no other obligation for the payment of its employees' retirement and other post-retirement benefits other than contributions described above.

41. OPERATING LEASE COMMITMENTS

Lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

The Group	**2008** **HK$'000**	2007 HK$'000
Within one year	**2,078**	5,336
Later than one year but within five years	**45**	10,532
	2,123	15,868

Lessor

At the balance sheet date, the Group had commitments for future minimum rental receivable under non-cancellable operating leases in respect of retail and office units which fall due as follows:

The Group	**2008** **HK$'000**	2007 HK$'000
Within one year	**53,706**	30,759
Later than one year but within five years	**135,447**	87,788
Later than five years	**4,099**	11,705
	193,252	130,252

42. CAPITAL COMMITMENTS

The Group	2008 HK$'000	2007 HK$'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of:		
– Property construction and development costs	**1,167,158**	915,973
– Acquisition of land use right and payment for demolition costs	**–**	286,296
	1,167,158	1,202,269

43. PLEDGE OF ASSETS

At the balance sheet date, the carrying amounts of the Group's assets included in the following categories in the consolidated balance sheet were pledged to secure credit facilities granted to the Group as disclosed in notes 32 and 33:

The Group	2008 HK$'000	2007 HK$'000
Property, plant and equipment	**1,008,529**	985,368
Prepaid lease payments	**610,263**	668,999
Investment properties	**401,543**	492,325
Properties held for sale	**502,010**	603,427
Restricted and pledged deposits	**67,737**	358,711
	2,590,082	3,108,830

At the balance sheet date, shares in certain subsidiaries of the Company were also charged to secure the borrowings from two financial institutions and convertible notes as disclosed in notes 32(b) and 33.

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44. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

(a) Material transactions with related parties

Related party relationship	Type of transaction	2008 HK$'000	2007 HK$'000
Mr. Yu Pan, controlling shareholder of the Company	Waiver of amount due from a director arising from business combination under common control	–	12,853
Grand Cosmos, immediate holding company of the Company	(a) Fair value of consideration paid for acquisition of 29% equity interest in a subsidiary	–	407,347
	(b) Fair value of consideration paid for acquisition of 100% equity interest in a subsidiary	–	301,662
Companies beneficially owned by Mr. Yu Pan	(a) Guarantee given to bank in respect of credit facilities granted to related companies	–	32,714
	(b) Entertainment expenses	**1,077**	834
Companies controlled by Mr. Yu Pan	(a) Rental income from office leasing	**8,784**	1,588
	(b) Revenue from hotel operation	**994**	246
Employees and consultants of companies beneficially owned by Mr. Yu Pan	Equity-settled share-based payment expenses	–	8,794
Other shareholders of subsidiaries	(a) Fair value of consideration paid for acquisition of equity interest in subsidiaries	–	977,515
	(b) Imputed interest on loan from minority shareholder of a subsidiary	–	6,020

Details of the Group's outstanding balances with related parties and the maximum balance of amounts due from related parties disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance have been set out in notes 27(a) and 31(c). The balances are unsecured, interest-free and repayable on demand. The Group has not made any provision for impairment loss in respect of related party debtors.

44. RELATED PARTY TRANSACTIONS (Continued)

(b) Pledge of shares by controlling shareholder

To secure for the convertible notes with a principal value of US$200,000,000 issued by the Company as disclosed in note 33, Sharp Bright and Grand Cosmos, companies wholly owned by Mr. Yu Pan, pledged their assets in favour of the trustee of the noteholders as follows:

(i) 963,776,271 ordinary shares of the Company; and

(ii) first fixed charge and first floating charge over the assets of Sharp Bright and Grand Cosmos.

(c) Compensation of key management personnel

The remuneration of members of key management, including directors' emoluments as disclosed in note 11, incurred during the year is as follows:

	2008	2007
	HK$'000	*HK$'000*
Short-term benefits	**14,449**	14,938
Other long-term benefits	**187**	141
Equity-settled share-based payment expenses	**806**	2,382
	15,442	17,461

Members of key management are those persons who have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial assets of the Group mainly include cash and cash equivalents, restricted and pledged deposits, and trade and other receivables. Financial liabilities of the Group include convertible notes, financial derivative liabilities, trade and other payables, bank and other borrowings and loan from minority shareholder of a subsidiary. The Company has not issued and does not hold any financial instruments for trading purposes at the balance sheet date.

The main financial risks faced by the Group are foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

(a) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from financing and operating activities of the group entities conducted in currencies other than the functional currency.

The carrying amounts of the Group's monetary assets and liabilities which are denominated in currencies other than the functional currencies of the respective group entities at the balance sheet date are as follows:

The Group	**2008** *HK$'000*	2007 *HK$'000*
Restricted and pledged deposits		
– US$	**46,311**	337,528
Cash and cash equivalents		
– US$	**7**	24
Financial derivative liabilities		
– US$	**93,162**	1,081,572
Convertible notes		
– US$	**306,337**	211,946

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(a) Foreign currency risk (Continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in the United States dollars exchange rate, with all other variables held constant, on the Group's profit after income tax (due to changes in the carrying amounts of monetary assets and liabilities) in the next accounting period:

	2008		2007	
	Change in exchange rate	**Increase (decrease) in profit after income tax**	Change in exchange rate	Increase (decrease) in profit after income tax
	%	***HK$'000***	%	*HK$'000*
If United States dollar weakens against Renminbi	**5%**	**17,710**	3%	26,873
If United States dollar strengthens against Renminbi	**5%**	**(17,710)**	3%	(26,873)
If Hong Kong dollar weakens against Renminbi	**5%**	**9,868**	3%	5,302
If Hong Kong dollar strengthens against Renminbi	**5%**	**(9,868)**	3%	(5,302)

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45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(b) Interest rate risk

The following table details the interest rate profile of the Group's financial assets and liabilities as at the balance sheet date based upon which the Company's management evaluates the interest rate risk:

	2008		2007	
The Group	**Effective interest rate (% per annum)**	**Amount** ***HK$'000***	Effective interest rate (% per annum)	Amount *HK$'000*
Financial assets				
Fixed rate receivables				
– Loan receivable	–	–	6.58%	9,192
– Restricted and pledged deposits	**1.21% to 2.95%**	**46,311**	3.40% to 4.01%	337,528
– Short-term bank deposits	–	–	2.75% to 3.05%	9,199
Floating rate receivables				
– Restricted and pledged deposits	**0.01%**	**21,426**	2.15%	21,183
– Other cash at bank	**0.00% to 0.36%**	**52,253**	0.00% to 0.72%	52,356
Financial liabilities				
Non-interest bearing borrowings				
– Loan from minority shareholder of a subsidiary	–	**273,968**	–	–
Fixed rate borrowings				
– Other borrowings	**20.00%**	**32,267**	–	–
– Convertible notes	**60.58%**	**306,337**	60.58%	211,946
Floating rate borrowings				
– Bank borrowings	**6.73% to 7.44%**	**1,070,441**	6.50% to 8.22%	963,129
– Other borrowings	**12.69%**	**220,000**	12.75%	220,000

The Group's exposure to interest rate risk for changes in interest rates primarily relates to the Group's restricted and pledged deposits, cash at bank included in cash and cash equivalent and floating rate bank and other borrowings. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk.

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(b) Interest rate risk (Continued)

The following table demonstrates the effect of sensitivity to reasonably possible changes in interest rates, with all other variables held constant, on the Group's profit after income tax in the next accounting period:

	2008		2007	
	Increase (decrease) in basis points	**Increase (decrease) in profit after income tax**	Increase (decrease) in basis points	Increase (decrease) in profit after income tax
		HK$'000		*HK$'000*
Floating rate financial assets				
Increase in floating rate	**100**	**737**	100	3,482
Decrease in floating rate	**(100)**	**(737)**	(100)	(3,482)
Floating rate financial liabilities				
Increase in floating rate	**500**	**(64,521)**	100	(9,761)
Decrease in floating rate	**(500)**	**64,521**	(100)	9,761

(c) Equity price risk

Financial derivative liabilities are stated at fair value with reference to professional valuations and estimations that take into account of assumptions and estimations on factors affecting the value of these financial instruments. Change of these assumptions will expose the Group to equity price risk on the financial liabilities which are presented at fair value through profit or loss. The Directors believe that the exposure to equity price risk from this volatility is acceptable in the Group's circumstances.

Equity price risk includes the Group's financial derivative liabilities, the fair value of which will fluctuate because of changes in the derivative's underlying equity price. The below sensitivity analysis is estimated based on reasonably possible changes in the market price of the underlying equity at the balance sheet date assuming that all other variables remain constants:

	2008		2007	
	Increase (decrease) in volatility	**Increase (decrease) in profit after income tax**	Increase (decrease) in volatility	Increase (decrease) in profit after income tax
	%	***HK$'000***	%	*HK$'000*
Volatility of marketing price of the underlying equity				
Increase	**10%**	**(41,265)**	5%	(30,868)
Decrease	**(10%)**	**29,974**	(5%)	15,963

45. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

(d) Credit risk

The Group's exposure to credit risk arises from the trade and other receivables. Management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount. At the balance sheet date, there is no significant concentration of credit risk in receivables. The maximum exposure to credit risk of the Group in this regard is represented by the carrying amount of trade and other receivables presented in the consolidated balance sheet.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and restricted and pledged deposits, arises from possible default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. At the balance sheet date, the Group has placed these deposits with banks and financial institutions of high credit.

(e) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

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

The Group	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to 12 months *HK$'000*	1 to 2 years *HK$'000*	2 to 5 years *HK$'000*	Over 5 years *HK$'000*	Total *HK$'000*
2008							
Trade and other payables	**75,653**	**65,788**	**82,134**	**5,086**	**64,844**	**–**	**293,505**
Bank and other borrowings	**–**	**244,319**	**110,805**	**95,916**	**277,513**	**1,001,044**	**1,729,597**
Convertible notes	**–**	**–**	**59,995**	**1,169,577**	**1,145,995**	**–**	**2,375,567**
Loan from minority shareholder of a subsidiary	**–**	**–**	**–**	**273,968**	**–**	**–**	**273,968**
	75,653	**310,107**	**252,934**	**1,544,547**	**1,488,352**	**1,001,044**	**4,672,637**
2007							
Trade and other payables	47,490	16,084	178,330	63,573	–	–	305,477
Bank and other borrowings	–	21,873	307,712	99,525	265,321	1,004,813	1,699,244
Convertible notes	–	–	60,620	60,620	2,311,737	–	2,432,977
	47,490	37,957	546,662	223,718	2,577,058	1,004,813	4,437,698

46. FINANCIAL INSTRUMENTS – CARRYING AMOUNT AND FAIR VALUE

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using information from observable current market transactions; and

- the fair value of derivative instruments are calculated using generally accepted valuation models.

The following table shows the carrying amount and fair value of financial assets and liabilities of the Group at the balance sheet date:

The Group	**2008** Carrying amount *HK$'000*	Fair value *HK$'000*	2007 Carrying amount *HK$'000*	Fair value *HK$'000*
Financial assets				
Trade and other receivables	**33,900**	*(Note (a))*	31,016	*(Note (a))*
Restricted and pledged deposits	**67,737**	*(Note (a))*	358,711	*(Note (a))*
Cash and cash equivalents	**53,720**	*(Note (a))*	63,338	*(Note (a))*
Financial liabilities				
Trade and other payables	**283,334**	*(Note (a))*	305,477	*(Note (a))*
Bank and other borrowings	**1,322,708**	*(Note (a))*	1,183,129	*(Note (a))*
Convertible notes	**306,337**	**482,095**	211,946	211,946
Financial derivative liabilities	**93,162**	**93,162**	1,081,572	1,081,572
Loan from minority shareholder of a subsidiary	**273,968**	*(Note (a))*	–	–

Notes:

(a) The Directors consider that the carrying amounts of these categories approximate their fair value on the grounds that either their maturities are short or their effective interest rates are approximate to the discount rates as at the balance sheet date.

(b) The table below shows the change in fair value of financial liabilities at fair value through profit or loss (including derivatives):

	2008 *HK$'000*	2007 *HK$'000*
Change in fair value during the year	**976,924**	267,789
Cumulative change in fair value	**1,244,713**	267,789

47. EVENTS AFTER THE BALANCE SHEET DATE

(a) Disposal of 80% equity interest in the Tianhe Project

Further to a framework agreement entered into on 24 February 2009 between the Company as the guarantor, Sky Honest Investments Corp. and Nicco Limited, both being subsidiaries of the Company, as the vendors, and two third parties as the purchasers for the disposal of 80% equity interest in Yaubond Limited, a subsidiary of Sky Honest Investments Corp. and Nicco Limited holding 100% indirect interest in the Tianhe Project, a formal sale and purchase agreement is expected to be entered into by the parties, subject to the review by the holders of the Notes and the final terms to be agreed by the purchasers. It is expected that on completion, out of the total consideration of RMB368,000,000 (approximately HK$417,471,000), (i) an amount of approximately HK$340,330,000 will be applied to partial settlement of the overdue Term Loan of principal value of HK$220,000,000 and partial redemption of the Notes in consideration of the release of the share charges of Yaubond Limited; and (ii) the remaining proceed of RMB68,000,000 (approximately HK$77,141,000) will be contributed as the working capital of the Group. The Group will retain a minority stake of 20% equity interest in the Tianhe Project for which the Group holds a put option to sell to the purchasers.

(b) Early redemption of convertible notes

Pursuant to condition 8E(ii) of the Trust Deed entered into by the Company and The Hong Kong and Shanghai Banking Corporation Limited as the trustee for the subscribers of the Notes issued on 4 May 2007, as amended by a supplemental trust deed dated 22 January 2008 and further resolved by the noteholders in a special committee meeting held on 10 June 2008, the noteholders have an automatic right to redeem outstanding notes of principal value of US$75,000,000 if the Group cannot obtain the land use right certificate for the Zhoutouzui Project on or before 31 March 2009. The timeline was further extended to (i) 31 May 2009 by the noteholders pursuant to a consent letter issued by the committee of the noteholders to the Company on 31 March 2009; or (ii) if a plan of a restructuring of the terms and conditions of the Notes can be agreed between the Company and the noteholders, such later date as the noteholders may agree. The Directors, after reviewing the current progress of the development, believe that the transfer of the land use right certificate is imminent and shall be able to match with the timing set by the extended date. In the situation where the land use right certificate cannot be obtained by then, the noteholders may, according to the consent letter, agree on a further extension. Should there be an automatic redemption for the principal value of US$75,000,000, the Directors envisage that a feasible debt restructuring plan can be agreed upon with the noteholders which facilitate the redemption being undergone in an orderly manner simultaneously with the Group's realisations of assets or any other refinancing plans. The Directors expect that the restructuring plan will lead to relaxation of the terms and conditions of the Notes which will include extending the redemption and put option rights. However, no concrete details of the plan have been agreed upon up to the date of the annual report.

48. COMPARATIVE FIGURES

The comparative figures of prepaid lease payments – current and non-current portions included in the consolidated balance sheet as at 31 December 2007 have been reclassified to conform to the classification of the associated assets. The Directors consider that the reclassification will result in more relevant presentation for the benefits of the equity holders of the Company.

49. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 17 April 2009.

FIVE YEAR FINANCIAL SUMMARY

The following table summaries the results, assets and liabilities of the Group:

	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
For the year ended 31 December					
Revenue					
– Continuing operations	**564,650**	125,631	50,329	4,757	–
– Discontinued operations	**–**	–	–	457	9,709
	564,650	125,631	50,329	5,214	9,709
Profit (loss) before income tax					
– Continuing operations	**634,678**	160,096	78,021	(2,580)	(7,425)
– Discontinued operations	**–**	–	–	(2,234)	(38,704)
	634,678	160,096	78,021	(4,814)	(46,129)
Income tax credit (expense)					
– Continuing operations	**49,670**	61,239	(33,152)	(33)	–
– Discontinued operations	**–**	–	–	–	(1,359)
	49,670	61,239	(33,152)	(33)	(1,359)
Profit (loss) for the year					
– Continuing operations	**684,348**	221,335	44,869	(2,613)	(7,425)
– Discontinued operations	**–**	–	–	(2,234)	(40,063)
	684,348	221,335	44,869	(4,847)	(47,488)
Attributable to					
– Equity holders of the Company	**685,128**	209,078	46,621	(4,847)	(47,487)
– Minority interests	**(780)**	12,257	(1,752)	–	(1)
	684,348	221,335	44,869	(4,847)	(47,488)
FINANCIAL POSITION					
At 31 December					
Total assets	**5,259,355**	4,946,528	1,458,148	250,120	13,836
Total liabilities	**(2,713,926)**	(3,259,846)	(691,283)	(57,786)	(5,802)
Net assets	**2,545,429**	1,686,682	766,865	192,334	8,034
Minority interests	**(24,734)**	–	(45,345)	–	–
Total equity attributable to equity holders of the Company	**2,520,695**	1,686,682	721,520	192,334	8,034

PARTICULARS OF MAJOR PROPERTIES

As at 31 December 2008

Location	Lease period	Development type	Site area (sq.m.)	Gross floor area (above the ground) (sq.m. approx.)	Effective equity interest % held	Stage of development	Anticipated completion	Open market value (Note 1) RMB'000	Open market value (Note 1) HK$'000	Market value attributable to the Group HK$'000
(A) Properties held for/under development										
1. Land at the junction of Tianhe North Road and Linhe Dong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2005 to 2045	Commercial	6,057	84,150	100%	Under clearance and demolition work	Not yet commence construction	703,000	797,414	797,414
2. Waterfront land at the north of Mayong, the east of Pearl River, and south of Zhujiang and the west of Hongde Road, Zhoutouzui Haizhu District, Guangzhou, Guangdong Province, the PRC.	2004 to 2044/ 2054/ 2074	Commercial, recreational and residential, and composite	86,557	212,546	72% (Note 2)	Under clearance and demolition work	Not yet commence construction	994,000	1,127,495	1,127,495
3. The residential development project, situated at Xiaoguan Maochong, Yunyan District, Guiyang, Guizhou Province, the PRC.	2008 to 2048-49/ 2078-79	Residential and Commercial	156,208 (including roads)		55%	Construction of Phase 1 underway	The first quarter of 2011 in whole project	560,000	635,209	349,365
		– Phase 1		93,411						
		– Phase 2		152,887						
		– Phase 3		217,344						
		– Common utilities and clubhouse		13,628						
				477,270						
				773,966				2,257,000	2,560,118	2,274,274

Notes:

1. Valuation of open market value of the properties is based on the assumptions that the properties will be developed and completed in accordance with the Group's latest development proposal, and that all consents, approvals and licences from relevant government authorities have been obtained without onerous condition or delay.

2. The open market value has already reflected the entitlement of 28% interest over the completed properties in the development by a Chinese cooperative joint venture partner.

PARTICULARS OF MAJOR PROPERTIES

As at 31 December 2008

	Location	Lease period	Use type	Class	Gross floor area (sq.m.)	Effective equity interest % held	Open market value RMB'000	Open market value HK$'000	Market value attributable to the Group HK$'000
(B)	**Investment properties**								
	All the shops on 2/F and 5/F, Units 402-403 of 4/F and Units 140-142, 6/F of Commercial podium, Tianyu Garden Phase 2, Nos. 136-146 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC	2000 to 2040	Commercial	Office/retail	19,790	100%	354,000	401,543	401,543
(C)	**Properties held for sale**								
	Whole office block of Skyfame Tower (excluding the sold portions (17-22/F.) and self-use portions (32-33/F.), retail podium and carparks, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2001 to 2041	Commercial	(i) Office Space	27,750*	100%	611,400	693,512	693,512
				(ii) Retail podium	8,981	100%	244,200	276,996	276,996
				(iii) Carparks	18,984	100%	106,400	120,690	120,690
					55,715		962,000	1,091,198	1,091,198
(D)	**Properties held for self-use**								
	1. The Westin Guangzhou, 6 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2001 to 2041	Commercial	(i) Above ground	62,547	100%	1,600,000	1,814,882	1,814,882
				(ii) Under-ground	5,122	100%			
					67,669				
	2. 32nd to 33rd Floors of Skyfame Tower, 8 Linhe Zhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC.	2001 to 2041	Commercial	Office	4,126*	100%	95,000	107,758	107,758
					71,795		1,695,000	1,922,640	1,922,640
Total	**(A to D)**						**5,268,000**	**5,975,499**	**5,689,655**

* Total gross floor area of the office block (excluding the sold units) is 31,876 sq.m..