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2008
Annual Report

SHIMAO PROPERTY HOLDINGS LIMITED
世茂房地產控股有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 813

Shanghai Shimao International Plaza

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CHIEF FINANCIAL OFFICER

Hui Wai Man, Lawrence

COMPANY SECRETARY

Lam Yee Mei, Katherine

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
China Construction Bank Corporation
Sumitomo Mitsui Banking Corporation

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 4307-12, 43rd Floor
Office Tower
Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock code: 813

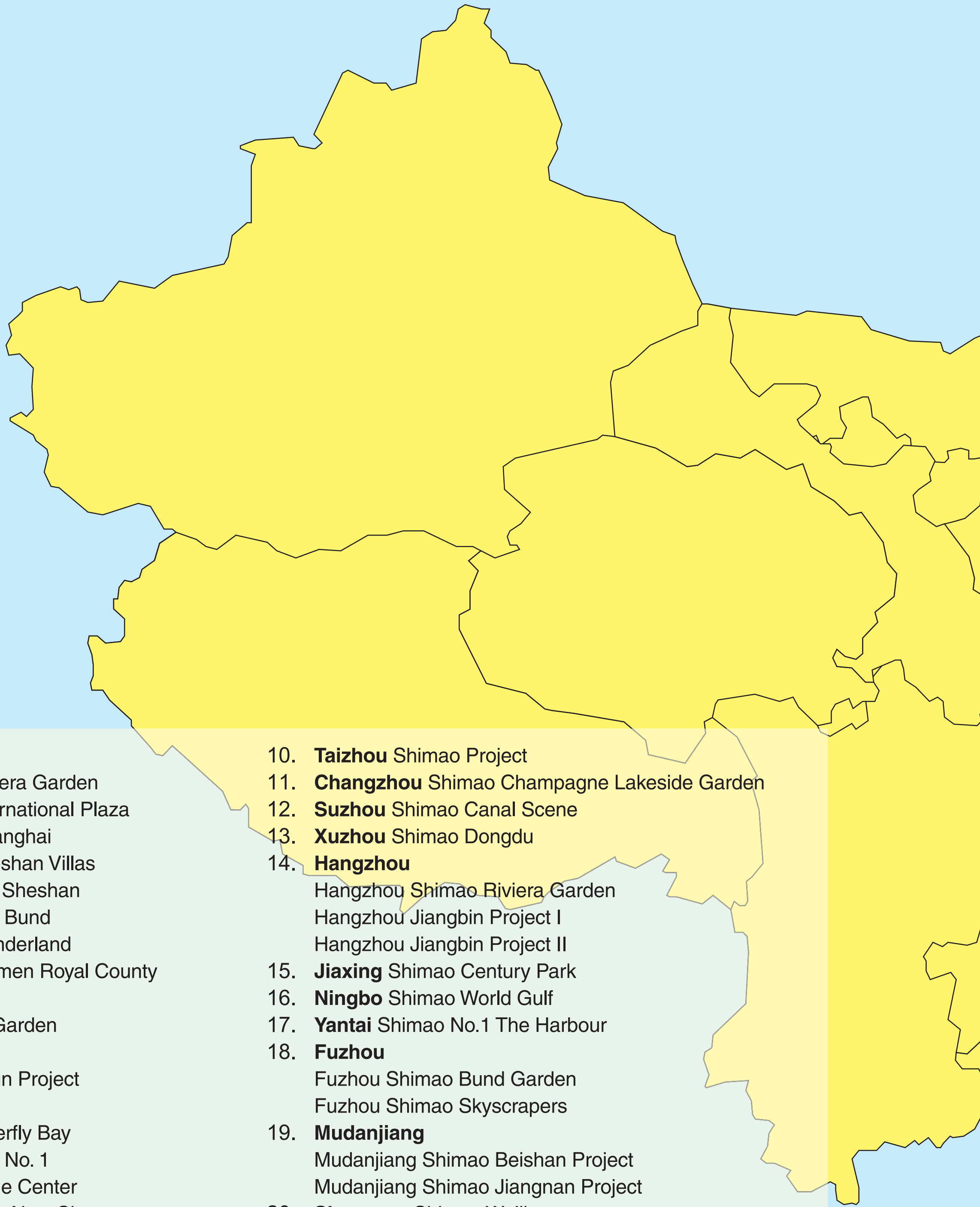
INVESTOR AND MEDIA RELATIONS

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

The Location of Our Projects

Land bank (Total Planned GFA) of 25.4 million sq.m.

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



01. **Shanghai**
    Shanghai Shimao Riviera Garden
    Shanghai Shimao International Plaza
    Le Royal Méridien Shanghai
    Shanghai Shimao Sheshan Villas
    Shanghai Le Méridien Sheshan
    Shanghai Hyatt on the Bund
    Shanghai Shimao Wonderland
    Shanghai Shimao Emmen Royal County
02. **Beijing**
    Beijing Shimao Olive Garden
    Beijing Shimao Tower
    Beijing Shimao Sanlitun Project
03. **Kunshan**
    Kunshan Shimao Butterfly Bay
    Kunshan Shimao East No. 1
04. **Changshu** Shimao The Center
05. **Harbin** Shimao Riviera New City
06. **Wuhan** Shimao Splendid River
07. **Shaoxing** Shimao Dear Town
08. **Wuhu** Shimao Riviera Garden
09. **Nanjing** Shimao Bund New City
10. **Taizhou** Shimao Project
11. **Changzhou** Shimao Champagne Lakeside Garden
12. **Suzhou** Shimao Canal Scene
13. **Xuzhou** Shimao Dongdu
14. **Hangzhou**
    Hangzhou Shimao Riviera Garden
    Hangzhou Jiangbin Project I
    Hangzhou Jiangbin Project II
15. **Jiaxing** Shimao Century Park
16. **Ningbo** Shimao World Gulf
17. **Yantai** Shimao No.1 The Harbour
18. **Fuzhou**
    Fuzhou Shimao Bund Garden
    Fuzhou Shimao Skyscrapers
19. **Mudanjiang**
    Mudanjiang Shimao Beishan Project
    Mudanjiang Shimao Jiangnan Project
20. **Shenyang** Shimao Wulihe
21. **Xianyang** Shimao Project
22. **Dalian** Shimao Lvshunkou Project

Yangtze River Delta **Bohai Rim** **Regional Centre**

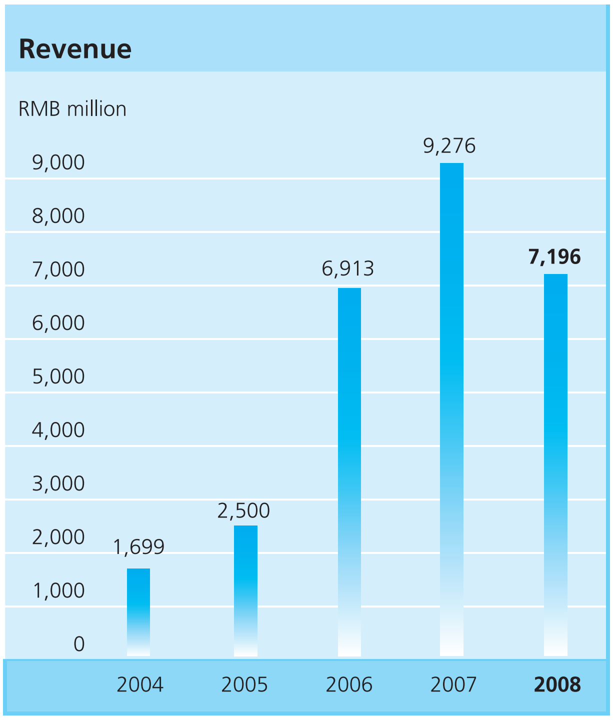
Harbin 05
Mudanjiang 19
Shenyang 20
Beijing 02
Dalian 22
Yantai 17
Xuzhou 13
21 Xianyang
Nanjing
Shanghai
Wuhan 06
08 Wuhu
Hangzhou
Fuzhou 18
Taiwan
Hong Kong
Hainan
Taizhou 10
Nanjing 09
11 Changzhou
12 Suzhou
04 Changshu
03 Kunshan
01 Shanghai
Jiaxing 15
Hangzhou 14
07 Shaoxing
16 Ningbo

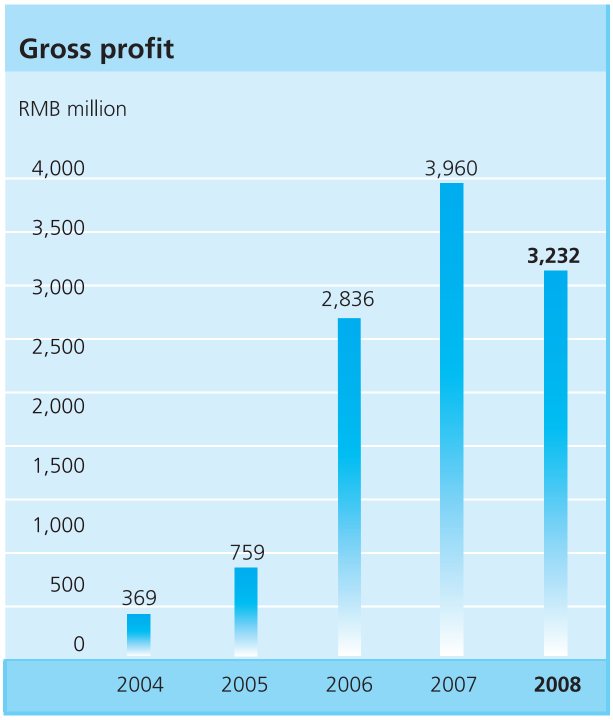
Five Years Financial Summary

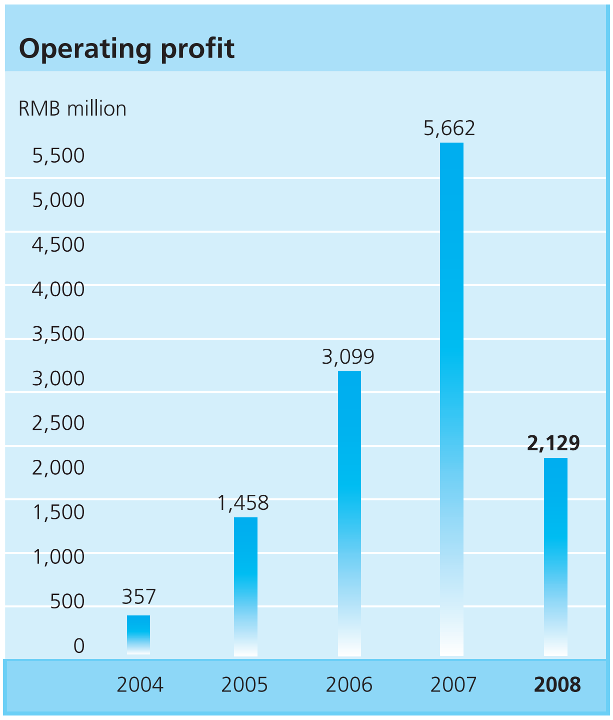
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000
Revenue	1,699,221	2,500,430	6,913,442	9,275,925	**7,196,277**
Cost of sales	(1,330,084)	(1,741,188)	(4,077,436)	(5,315,775)	**(3,964,242)**
Gross profit	369,137	759,242	2,836,006	3,960,150	**3,232,035**
Fair value gains/losses on investment properties	83,551	902,639	1,000,831	1,155,253	**(122,749)**
Other gains	143,036	99,617	73,625	1,614,054	**442,118**
Selling and marketing costs	(124,672)	(106,388)	(207,576)	(192,433)	**(281,756)**
Administrative expenses	(110,371)	(189,270)	(460,008)	(757,384)	**(1,065,837)**
Other operating expenses	(3,281)	(7,343)	(143,853)	(117,412)	**(75,053)**
Operating profit	357,400	1,458,497	3,099,025	5,662,228	**2,128,758**
Finance (costs)/income – net	(16,180)	(1,866)	39,034	(167,231)	**(349,630)**
Share of results of:					
– Associated companies	(13,742)	17,741	201,027	112,870	**(3,132)**
– Jointly controlled entities	—	—	(13)	175	**9,498**
	(13,742)	17,741	201,014	113,045	**6,366**
Profit before income tax	327,478	1,474,372	3,339,073	5,608,042	**1,785,494**
Income tax expense	(113,990)	(488,064)	(1,060,323)	(1,434,257)	**(925,226)**
Profit for the year	213,488	986,308	2,278,750	4,173,785	**860,268**
Profit attributable to equity holders of the Company	184,450	907,993	2,278,750	4,091,782	**841,159**
Non-current assets	5,488,429	8,244,973	13,883,525	21,728,469	**24,782,435**
Current assets	6,842,821	7,320,010	13,812,602	17,542,133	**21,698,906**
Total assets	12,331,250	15,564,983	27,696,127	39,270,602	**46,481,341**
Non-current liabilities	1,452,179	2,881,386	7,687,482	12,023,481	**12,500,198**
Current liabilities	8,429,602	10,173,379	8,480,276	8,434,913	**14,943,724**
Total liabilities	9,881,781	13,054,765	16,167,758	20,458,394	**27,443,922**
Net assets	2,449,469	2,510,218	11,528,369	18,812,208	**19,037,419**
Equity attributable to equity holders of the Company	1,914,315	2,510,218	11,528,369	18,448,184	**18,695,819**
Minority interests	535,154	—	—	364,024	**341,600**
Total equity	2,449,469	2,510,218	11,528,369	18,812,208	**19,037,419**

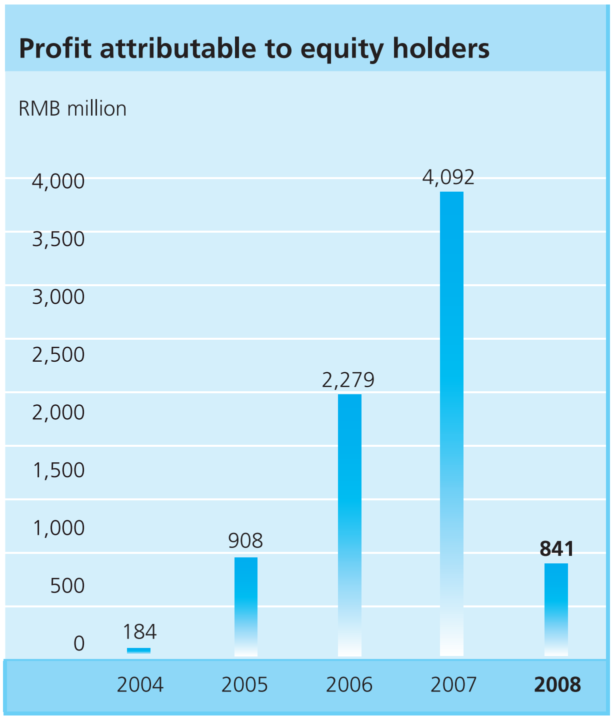
Note: The figures for 2006, 2007 and 2008 are extracted from the annual reports of the Company. The figures for 2004 and 2005 are extracted from the prospectus of the Company dated 22 June 2006. To be consistent with 2007 presentation, certain comparative figures prior to 2007 have been reclassified in the consolidated financial statements: Land appreciation tax expense was reclassified from cost of sales to income tax expense, while finance income was reclassified from other gains to finance (costs)/income-net.

Five Years Financial Summary









Chairman's Statement

Wuhan Shimao Splendid River

Chairman's Statement


Harbin Shimao Riviera New City

During the year under review, the general operating environment was very difficult. Natural disasters in the mainland indirectly led to the delay in completion of some projects, which in turn affected the revenue recognition from sales of certain properties. Revenue was RMB7.2 billion for the year, representing fell 22% over 2007. Operating profit fell by 62% in 2008 while profit attributable to shareholders of the Company decreased by 79% over 2007 to RMB841 million. Excluding after tax effect of fair value losses/gains on the investment properties, depreciation and amortization of three completed hotels and goodwill recognised/impaired with a total amount of RMB267 million, profit from core business attributable to shareholders amounted to RMB1.1 billion, representing a decrease of 39%. In 2008 there were no one-off items as in 2007 when a gain was recorded from disposal of the Group's 29.99% interests in Wuhan Project and gain on the change of the enterprise income tax rate.

Dear shareholders,

I hereby present the annual results of Shimao Property Holdings Limited ("Shimao Property" or the "Company" and together with its subsidiaries, the "Group") for the year ended 31 December 2008.

In 2008, the China's real estate market faced many strenuous tests and impacts in various areas, that resulted in significant market adjustments. In the first half of 2008, the macro-control measures by the central government swept in full force reducing both the price and volume of property market transactions. Subsequent natural disasters in China, such as the snowstorms and the major Sichuan earthquake, also had an unfavorable market impact. In the second half of 2008, the subprime crisis in U.S. shattered global financial markets, economies around the world struggled against the threat of recession and the China real estate market inevitably suffered another blow.


Nanjing Shimao Bund New City

Solid Sales Performance Underpinned by National Brand Development

Natural disasters in the mainland during 2008 indirectly delayed some of our project completion progress. Revenue recognition for certain projects, which had already been launched or intended to be launched in the markets by the end of 2008, were postponed respectively until 2009. Revenue of the Group was RMB6.2 billion with the recognized saleable GFA of 688,717 sq.m. during the year. Sales recorded came from 15 projects, including, inter alia, Shanghai Shimao Sheshan Villas, Wuhu Shimao Rivera Garden, Kunshan Shimao Butterfly Bay and Beijing Shimao Olive Garden. Revenue from sales in new projects across second and third tier cities accounted for more contribution to the Group, achieving results gradually from greater efforts made by the Group to invest in economically prosperous and rapid developing regions.

Balanced Property Portfolio Widening Profit Base

During the year under review, the commercial property business performed satisfactorily. Since its commencement of operation at the beginning of the year, Beijing Shimao Tower recorded a continually increasing occupancy rate and achieved an occupancy rate of 73% at the end of 2008. Already enjoying the status as the landmark shopping center in the region, the Group's Shanghai Shimao International Plaza on Nanjing Road, Shanghai was widely recognized and supported by renowned international players and saw an increase in occupancy rate during the year to 98%, driving higher rental revenues.

Shanghai Le Méridien Sheshan

In the hotel property business, after Shanghai Hyatt on the Bund held its grand opening at the end of 2007, together with Shanghai Le Méridien Sheshan and Le Royal Méridien Shanghai, the Group had invested in a total of three 5-star hotels in Shanghai providing over 1,700 guest rooms, the Group commands the largest market share in top-rate international hotels in Shanghai. Hotels under the Group received wide-ranging market accolades for their premium design and professional services, reinforcing the strength of the Shimao Property brand name.

In order to further improve the service quality of hotels, during the year under review, the Group entered into a cross-region hotel management collaboration agreement with InterContinental Hotels Group, covering the major international brand names "InterContinental Hotels & Resorts", "Crowne Plaza Hotels & Resorts" and "Holiday Inn Hotels & Resorts". The Group believes that, with the advanced internationalized management expertise and multi-brand collective edge of InterContinental Hotels, operation of these projects will bring success to the Group and build up a hotel property portfolio acclaimed by end users which will eventually help expand and diversify the Group's revenue source and steady profit contribution.

Prudent Expansion of Land Bank Reserve Ensuring Rapid Development

Shimao Property has abundant land bank reserve allocated across areas with enormous development potential, including the Yangtze River Delta Region, Bohai Bay Region and other regions with rapid economic growth, enabling the Group to capture market opportunities in different regions and to reduce concentration risks.

During the year under review, the Group acquired four parcels of quality land successively with total GFA of 3.19 million sq.m., comprising sites located in Dalian City of Liaoning Province, Hangzhou City and Ningbo City of Zhejiang Province. Presently, the total planned GFA of the Group's land bank reserve has reached 25.5 million sq.m., which can provide for the development needs in the coming five to seven years. The Group will continue to expand land bank reserve in a prudent manner and efficiently utilize existing land resources to allow the Group to make great leaps forward in its national development.

Smooth Progress of Restructuring Enhancing Capital Flexibility

The restructuring proposal involving injection of 10 commercial projects of the Group into Shanghai Shimao Co., Ltd. ("Shanghai Shimao") as officially approved by the China Securities Regulatory Commission on 3 September 2008 is an important milestone for the Group, which signifies the Group's access to the A-share market and broadened funding sources. Restructuring is estimated to be completed by the first half of 2009, upon which the Group will not only own an independent and professional commercial property group, but will also be able to raise funds through the Chinese equity and debt markets through an independent financing platform. This allows more effective fund raising at a lower cost to aid development and strengthen liquidity of the Group, while we focus our resources on facilitating the pace of development of future residential and hotel businesses.

Optimizing Corporate Governance and Bearing Social Responsibility

Sound corporate management will help the Group address challenges from the current difficult market environment. By clearly delineating the corporate control and governance structure, instituting a professional team of management, optimizing the internal management system of the corporation and implementing incentive mechanisms with proven track-records, the Group is committed to the enhancement of corporate governance standards, so as to strengthen the cohesion and competitiveness of the corporation.

Additionally, the Group adhered to its belief that corporate citizens owe an obligation to society. In 2008, as severe snowstorms whipped through the China mainland, Shimao Property immediately answered national call for aid relief and donated HK$10 million to the China Charity Foundation for rescue and reconstruction of the affected areas. Later in the year, Shimao Property not only donated RMB10 million emergency funds after the 8.0 scale earthquake in Wenchuan, Sichuan, but also contributed RMB100 million for the construction of 100 "Shimao Caring Hospitals" (世茂愛心醫院) in the worst-hit zones, including Sichuan, Gansu and Shaanxi, etc., thereby giving direct support to the earthquake victims.

Future Plans and Goals

2008 was a difficult year; looking forward to 2009, market conditions will continue to be challenging. The consolation is that the central government has decisively promulgated a series of economic stimulus measures and reinstated real estate industry as an important core business supporting the national economy. Beginning in the fourth quarter, after taking into account of the financial and real estate market conditions, central and regional governments successively issued various measures to stimulate domestic demand and stabilize market conditions, including a total of five central bank interest rate cuts, lowering deed tax rates, waiving stamp duty on property transactions and delaying payments of land premium. With the support of these measures, we believe the overall market will gradually regain momentum in 2009.

Yantai Shimao No.1 The Harbour

With government's measures to stimulate the property market gradually taking effect and a certain level of purchasing power accumulated through the weak sales performance as shown in 2008, the Group remains cautiously optimistic about the future as demands will be driven by actual end-users. In respect of hotel property and commercial property, the Group believes the World Expo 2010 to be held in Shanghai would spur the performance of hotel businesses and provide a boost to Shimao Property with its highly-reputed hotel properties that have amassed wide recognition by domestic and international consumers. On the other hand, the acceleration of modernization and economic development in China over the years will expand demands for quality commercial properties and therefore create a beneficial environment for commercial property businesses.

To cope with forthcoming challenges and capture future opportunities, Shimao Property will review financing progress and market conditions and accordingly continue reorganization of the hotel business and further implement a development mode spearheaded by three principal businesses. Centralizing the management of residential, commercial and hotel properties under dedicated management teams with equal competence on three different platforms will unlock the the potential values and enhance management expertise in each business, thereby giving the Group an extra competitive edge for long-term development.

On 9 April 2009, the Group succeeded in placing new shares with net proceeds of HK$1.9 billion. Following the completion of the placing, repayment of syndicated loans and the restructuring proposal involving injection of commercial projects into Shanghai Shimao, the financial position of the Group is expected to be improved through the enlargement of equity base and reduction of debt level, which will be beneficial to the operations and business development of the Group in the long run.

In line with the existing development strategies, the Group will continue to focus on the Yangtze River Delta and Bohai Bay Region and other rapid developing regions. A number of quality projects will be launched, where the proportion of small-to-medium residential units will be increased to adapt to government plans and cater to market needs, with the aim of expanding market share and eventually enhancing the reputation and recognition of the "SHIMAO" brand name. With our well-maintained good reputation, extensive project development experience and professional management teams, the Group is committed to being a quality real estate developer and achieving the highest standards of business operations, cost control and brand name development. By consolidating our core competencies, we will strive to achieve satisfactory performance and a bright future for our shareholders.

Appreciation

On behalf of the Board, I would like to thank our shareholders for their faith and support of the Group and recognition of the Group's future development strategies. Meanwhile, I would also like express my heartfelt gratitude to our staff for their dedication and enthusiasm which has been the driving force behind Shimao Property. With a series of challenges ahead, the Board will join hands with our staff to do our best to maximize shareholders' returns.

Hui Wing Mau
Chairman

Hong Kong, 27 April 2009

Management Discussion and Analysis

Shanghai Hyatt on the Bund

Management Discussion and Analysis

Shanghai Shimao Riviera Garden

Overview

Business Review

During the year under review, the Group adjusted its sales strategies as appropriate in response to the changes in the macroeconomic environment; more projects were launched in second and third tier cities. However, owing to the impact of natural disasters and deterioration in the operating environment, overall results of property sales experienced a moderate slowdown. During the year, the Group strategically expanded its geographic coverage in a prudent manner and fully explored cities with development potential to reap preliminary results. In addition, investment properties recorded promising results to gradually gain significant importance and contribute a stable revenue to the Group.

Currently, the revenue of the Group is mainly derived from three business segments: property development, hotel operation and property investment. Turnover of the Group during the year amounted to RMB7.2 billion, a decrease of 22% compared with RMB9.3 billion in 2007. Property sales remained the main revenue source of the Group, such revenue amounted to RMB6.2 billion representing 87% of total revenue, a decrease of 6% over 2007. Revenue from hotel operation and property investment aggregated to RMB951 million, increased 48% compared with 2007.

Property Development

Revenue from property sales recognized during the year was RMB6.2 billion representing a drop of 28% compared with the corresponding period of last year. The slowdown in sales was primarily due to two factors: (1) The natural disasters in early 2008 indirectly dragged the progress of some of our project construction thereby leading to the delays in revenue recognition of certain projects, which had been originally scheduled for completion in 2008 but delay until the first half of 2009. (2) Relatively suppressed market resulting from the outbreak of the financial crisis at the end of the year.

Sales of 17 projects (including two projects from associated companies) were recognized during the year, including Shanghai Shimao Sheshan Villas, Wuhu Shimao Riviera Garden, Kunshan Shimao Butterfly Bay and Beijing Shimao Olive Garden with total recognized area sold amounted to 0.7 million sq.m. As more efforts were put to expand distribution, product structure was different from that of last year. While sales from first tier cities were lower than they used to be, sales from second and third tier cities accounted for an increasing contribution to the Group. Therefore, average sales price during the year dropped from RMB11,088 per sq.m in last year to RMB9,119 per sq.m.

Suzhou Shimao Canal Scene

Turnover from property sales recognized for the year ended 31 December 2008 is as follows:

Project	Turnover (RMB million)	Saleable GFA Booked (sq. m.)	Average Sales Price in 2008 (RMB/m²)	Group's Interest
Beijing Shimao Olive Garden	572	20,879	**27,396**	100%
Wuhan Shimao Splendid River	317	34,089	**9,299**	70%
Shaoxing Shimao Dear Town	51	5,045	**N/A**	100%
Changshu Shimao The Center	854	119,209	**7,164**	100%
Shanghai Shimao Sheshan Villas	1,166	24,714	**47,180**	100%
Kunshan Shimao Butterfly Bay	608	77,060	**7,890**	100%
Harbin Shimao Riviera New City	557	126,278	**4,411**	100%
Shanghai Shimao Riviera Garden	47	439	**N/A**	100%
Shenyang Shimao Wulihe	68	1,681	**40,452**	100%
Shanghai Shimao Emmen Royal County	42	5,092	**8,248**	100%
Suzhou Shimao Canal Scene	359	57,556	**6,237**	100%
Wuhu Shimao Riviera Garden	652	86,849	**7,507**	100%
Fuzhou Shimao Skyscrapers	136	6,477	**20,997**	100%
Hangzhou Shimao Riviera Garden	493	61,793	**7,978**	100%
Kunshan Shimao East No. 1	322	61,556	**5,231**	100%
Sub-total	6,244	688,717		
Nanjing Shimao Bund New City*	91	6,999	**13,002**	50%
Fuzhou Shimao Bund Garden*	23	1,516	**15,172**	50%
Sub-total	114	8,515		
Total	6,358	697,232		

* Sales revenue from Fuzhou Shimao Bund Garden and Nanjing Shimao Bund New City (both associated companies) has not been included in the turnover of the Group for the year ended 31 December 2008. Figures represent attributable interests.

Projects completed in 2008

There were 13 projects completed in various cities including Shanghai, Changshu and Kunshan in 2008 with saleable GFA completion of 1.3 million sq.m.

Projects completed for the year ended 31 December 2008 are as follows:

Project	Saleable GFA Completed (sq. m.)	Group's Interest
Shanghai Shimao Sheshan Villas	26,391	100%
Wuhan Shimao Splendid River	136,839	70%
Harbin Shimao Riviera New City	61,103	100%
Wuhu Shimao Riviera Garden	207,670	100%
Kunshan Shimao East No. 1	122,632	100%
Fuzhou Shimao Skyscrapers	24,255	100%
Shenyang Shimao Wulihe	21,730	100%
Kunshan Shimao Butterfly Bay	111,710	100%
Changshou Shimao The Center	201,175	100%
Shaoxing Shimao Dear Town	25,036	100%
Hangzhou Shimao Riviera Garden	154,079	100%
Suzhou Shimao Canal Scene	86,687	100%
Shanghai Shimao Emmen Royal County	86,746	100%
Total	1,266,053	

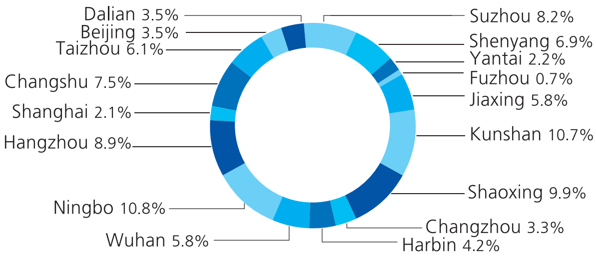
Projects available for sales in 2009

The Group expects 25 projects to be launched in 2009, including Shanghai Shimao Riviera Garden, Ningbo Shimao World Gulf and Beijing Shimao Sanlitun Project, etc. This will increase saleable area by 1.5 million sq.m., when combined with available saleable area of 1.5 million sq.m. recorded at the end of 2008 with approved pre-sales permit but not yet sold, the Group has saleable area of 3.0 million sq.m. in 2009.

Saleable projects for 2009 are analyzed as follows:

Project	Saleable GFA ('000 sq.m.)	Group's Interest
Changshu Shimao The Center	108	100%
Kunshan Shimao Butterfly Bay	99	100%
Kunshan Shimao East No.1	55	100%
Wuhan Shimao Splendid River	84	70%
Shaoxing Shimao Dear Town	142	100%
Jiaxing Shimao Century Park	84	100%
Changzhou Shimao Champagne Lakeside Garden	47	100%
Shenyang Shimao Wulihe	100	100%
Suzhou Shimao Canal Scene	118	100%
Hangzhou Shimao Riviera Garden	128	100%
Shanghai Shimao Emmen Royal County	30	100%
Harbin Shimao Riviera New City	60	100%
Taizhou Shimao Project	88	100%
Ningbo Shimao World Gulf	156	100%
Fuzhou Shimao Skyscrapers	10	100%
Yantai Shimao No.1 The Harbour	32	100%
Nanjing Shimao Bund New City	105	50%
Beijing Shimao Sanlitun Project	50	100%
Dalian Shimao Lvshunkou Project	50	85%
Sub-total	1,546	
Inventory and projects with pre-sale permit as at 31 December 2008	1,500	
Total	3,046	

Geographical Breakdown of Saleable GFA



Hotel and Investment Properties

During the year under review, revenue of the Group from hotel and investment properties recorded steady growth to the group revenue contribution. During the year, revenue from hotel and investment properties amounted to RMB951 million, a 48% increase compared with RMB645 million in 2007, which accounted for 13% of the Group's revenue (2007: 7%).

Hotel Operation

During the year under review, revenue from the hotel business was RMB771 million (2007: RMB566 million), generated from room and food and beverage service by Shanghai Le Méridien Sheshan, Shanghai Hyatt on the Bund and Le Royal Méridien Shanghai. Earnings before interest, taxes, depreciation and amortization (EBITA) from these three hotels was RMB280 million. As the Group further established brand name and recognition for its hotels, the hotels and services under Shimao Property continued to command leading market share in Shanghai's international top-class hotel market.

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

As of 31 December 2008, there were three completed hotels, i.e. Shanghai Le Méridien Sheshan, Le Royal Méridien Shanghai and Shanghai Hyatt on the Bund.

	Hotel	Location	Date of Commencement of Business	Number of Rooms	Group's Interest
1	Shanghai Le Méridien Sheshan	Shanghai	November 2005	327	100%
2	Le Royal Méridien Shanghai	Shanghai	September 2006	770	100%
3	Shanghai Hyatt on the Bund	Shanghai	June 2007	631	100%
Total				1,728	

Shenyang Shimao Wulihe

Hangzhou Shimao Riviera Garden

Investment Properties

During the year under review, turnover of the Group from leasing of investment properties amounted to RMB180 million, representing an increase of 129% over last year.

Completed Investment Properties for Lease

In 2008, commercial properties of the Group achieved excellent results to contribute steady and considerable return to the Group. Commercial properties gradually became the core revenue of the Group and reflects the success of our property portfolio diversification strategy. During 2008, the Group completed commercial buildings with a total GFA of 69,136 sq.m. across Kunshan, Changshu, Wuhu, Shenyang and Fuzhou, which are expected to commence operations in 2009.

Summary of investment properties portfolio of the Group is as follows:

	Retail & Office (Investment Properties)	Location	Type	Completion	Gross Leasable Area (sq.m.)	Group's Interests
1	Shanghai Shimao International Plaza — Phase 1	Shanghai	Retail	December 2004	38,819	100.0%
2	Shanghai Shimao International Plaza — Phase 2	Shanghai	Retail	May 2007	32,420	100.0%
3	Beijing Shimao Tower	Beijing	Retail	May 2008	16,000	64.2%
4	Beijing Shimao Tower	Beijing	Office	May 2008	54,175	64.2%
5	Kunshan Shimao Butterfly Bay	Kunshan	Retail	Dec 2008	6,991	100.0%
6	Changshu Shimao The Centre	Changshu	Retail	Dec 2008	45,516	100.0%
7	Wuhu Shimao Riviera Garden	Wuhu	Retail	Dec 2008	1,182	100.0%
8	Shenyang Shimao Wulihe	Shenyang	Retail	Dec 2008	13,488	100.0%
9	Fuzhou Shimao Skyscrapers	Fuzhou	Retail	Dec 2008	1,959	100.0%
Total					210,550	

Restructuring of the Group

On 3 September 2008, the restructuring proposal involving the Group and Shanghai Shimao Co., Ltd. ("A-Share Listed Company", Shanghai Stock Exchange stock code: 600823) was approved by the China Securities Regulatory Commission, whereby it was finalized that 9 project companies (including 10 commercial projects) and Beijing Shimao Tower were to be injected into A-Share Listed Company, for which A-Share Listed Company shall be responsible for development, sales, leasing businesses and the relevant property management. The A-Share Listed Company is presently one of the largest listed commercial property developers in the A-Share market, while Shimao Property is the first property enterprise listed in Hong Kong to have successfully entered the China A-Share market by way of capital injection. This restructuring proposal enables Shimao Property to own an independent and professional commercial property group company in the Mainland,

Wuhu Shimao Riviera Garden

which not only allows concentration of resources on capital-intensive commercial property development, but also provides a stand-alone financing platform for the Group to raise funds for business development through the Chinese equity and debt markets. Besides, this restructuring plan also allows the Group to centralize and focus on its financials and resources management to developing residential and hotel businesses in the rapidly growing China market.

Land Bank Reserve and Land Acquisition

To ensure a healthy financial position and maintain a competitive edge amid property and financial under market and financial volatility, the Group remained prudent in land acquisition during the year under review. The Group acquired four parcels of land during the year, located in Dalian, Ningbo and Hangzhou (two parcels of land) respectively with a total planned GFA 3.19 million sq.m. which took the land bank reserve to 25.5 million sq.m., deemed sufficient for the development needs in the coming five to seven years. These parcels of lands are located in second and third tier cities with enormous development potential, the advantageous geographic locations come with convenient transportation that connect the lands with regional central cities. Currently, the Group has 34 projects in various stages of development in 22 cities, such as Shanghai, Beijing, Harbin, Wuhan, Nanjing, Fuzhou, Kunshan, Changshu, Shaoxing, Wuhu, Yantai, Jiaxing, Changzhou, Shenyang, Suzhou, Xuzhou, Hangzhou, Xianyang, Taizhou, Mudanjiang, Dalian and Ningbo.

Details of the newly acquired lands during the year are as follows:

Project	Date of Acquisition	Uses	Land Cost (RMB million)	Total Planned GFA ('000 sq.m.)	Cost per sq.m. (RMB)	Group's Interest
Hangzhou Jiangbin I	January 2008	Residential & retail	3,073	608	5,054	50%
Hangzhou Jiangbin II	January 2008	Residential & retail	1,586	281	5,644	50%
Dalian Shimao	January 2008	Residential, office, retail & hotel	1,650	1,600	1,031	85%
Ningbo Shimao	January 2008	Residential, retail & hotel	1,310	700	1,871	100%
Total			7,619	3,189	2,389	

Shanghai Shimao Sheshan Villas

Shaoxing Shimao Dear Town

The development status of the Group's land reserve as at 31 December 2008 is analysed as follows:

	Project	Location	Completed but Unsold/ Held for Investment (sq. m)	GFA Under Development (sq. m)	GFA for Future Development: Land Premium Paid (sq. m)	GFA for Future Development: Land Premium Unpaid (sq. m)	Total GFA (sq. m)	Project Total GFA* (sq. m)	Group's Interest	Date of Acquisition
1	Shanghai Shimao Riviera Garden	Shanghai	703	157,992	51,061	39,800	249,556	921,956	100%	2000/Jan
2	Shimao International Plaza and Le Royal Méridien Hotel	Shanghai	170,935	—	—	—	170,935	170,935	100%	2001/Jun
3	Shanghai Shimao Sheshan Villas and Le Méridien Sheshan Hotel	Shanghai	71,145	2,221	—	—	73,366	146,514	100%	2003/May
4	Shanghai Hyatt on the Bund	Shanghai	100,972	—	—	—	100,972	100,972	100%	2002/May
5	Shanghai Shimao Wonderland	Shanghai	—	86,000	305,000	—	391,000	550,765	100%	2005/Nov
6	Beijing Shimao Olive Garden	Beijing	2,552	—	—	—	2,552	299,853	100%	2004/Aug
7	Kunshan Shimao Butterfly Bay	Kunshan	102,568	119,231	657,286	—	879,085	1,222,077	100%	2004/Nov
8	Kunshan Shimao East No. 1	Kunshan	61,076	85,544	1,103,270	—	1,249,890	1,329,184	100%	2005/Oct
9	Changshu Shimao The Center	Changshu	125,453	324,477	1,096,026	—	1,545,956	1,975,000	100%	2004/Dec
10	Harbin Shimao Riviera New City	Harbin	146,875	—	996,786	—	1,143,661	1,693,564	100%	2004/Mar
11	Wuhan Shimao Splendid River	Wuhan	102,950	311,491	63,731	1,121,808	1,599,980	1,816,000	70%	2005/Feb
12	Shaoxing Shimao Dear Town	Shaoxing	42,779	317,873	450,206	352,727	1,163,585	1,301,700	100%	2006/Mar
13	Wuhu Shimao Riviera Garden	Wuhu	119,542	—	210,784	119,917	450,243	609,000	100%	2006/Mar
14	Yantai Shimao No.1 The Harbour	Yantai	—	280,000	—	—	280,000	280,000	100%	2006/Aug
15	Jiaxing Shimao Century Park	Jiaxing	—	214,509	835,491	—	1,050,000	1,050,000	100%	2006/Aug
16	Changzhou Shimao Champagne Lakeside Garden	Changzhou	—	326,014	826,396	347,590	1,500,000	1,500,000	100%	2006/Oct
17	Shenyang Shimao Wulihe	Shenyang	31,177	269,788	1,452,731	—	1,753,696	1,787,220	100%	2006/Dec
18	Beijing Shimao Tower	Beijing	70,175	—	—	—	70,175	70,175	100%	2006/Dec
19	Suzhou Shimao Canal Scene	Suzhou	29,130	90,430	1,005,311	290,141	1,415,012	1,500,000	100%	2007/Jan
20	Xuzhou Shimao Dongdu	Xuzhou	—	135,375	415,310	749,315	1,300,000	1,300,000	100%	2007/Feb
21	Hangzhou Shimao Riviera Garden	Hangzhou	92,286	—	522,272	—	614,558	718,840	100%	2007/Feb
22	Fuzhou Shimao Skyscrapers	Fuzhou	22,831	451,164	—	—	473,995	500,000	100%	2007/May
23	Beijing Shimao Sanlitun	Beijing	—	—	212,000	—	212,000	212,000	100%	2007/May
24	Xianyang Shimao	Xianyang	—	—	161,353	22,850	184,203	184,203	60%	2007/Jan
25	Taizhou Shimao	Taizhou	—	95,000	305,000	—	400,000	400,000	100%	2007/Oct
26	Shanghai Shimao Emmen Royal County	Shanghai	79,024	—	255,530	—	334,554	351,200	100%	2008/Oct
27	Nanjing Shimao Bund New City	Nanjing	34,938	181,928	174,383	832,835	1,224,084	1,442,978	50%	2003/Jul
28	Fuzhou Shimao Bund Garden	Fuzhou	3,895	—	—	—	3,895	286,094	50%	2002/Dec
29	Mudanjiang Shimao Beishan	Mudanjiang	—	—	1,502,897	297,103	1,800,000	1,800,000	100%	2007/Dec
30	Mudanjiang Shimao Jiangnan	Mudanjiang	—	—	—	700,000	700,000	700,000	100%	2007/Dec
31	Hangzhou Jiangbin I	Hangzhou	—	—	365,392	243,594	608,986	608,986	50%	2008/Jan
32	Hangzhou Jiangbin II	Hangzhou	—	—	169,013	112,674	281,687	281,687	50%	2008/Jan
33	Dalian Lvshunkou Shimao	Dalian	—	—	360,849	1,239,151	1,600,000	1,600,000	85%	2008/Jan
34	Ningbo Shimao World Gulf	Ningbo	—	200,866	219,134	280,000	700,000	700,000	100%	2008/Jan
	Total		1,411,006	3,649,903	13,717,212	6,749,505	25,527,626	29,410,903		
	Attributable GFA (sq.m)		1,360,705	3,465,492	13,225,031	5,623,398	23,574,626			

* The project total GFA figures shown in these columns include saleable GFA, non-saleable GFA and car parking spaces, as well as rentable GFA and hotel GFA, as applicable

Market Outlook

During 2009, as uncertainties surrounding the future of global economies continue to loom, we expect ongoing market integration to take place. However, the Central Economic Work Conference（中央經濟工作會議）held at the end of 2008 reinstated real estate industry as a core business supporting national economy, the Group believes a leap to a long and health development await when the current market integration completes. In the meantime, after an extended period of "wait-and-see" sentiment in the market, there accumulated a certain amount of actual demands for real properties; coupled with the successive promulgation of a series of domestic demand stimulus plans by the central government, the Board is cautiously optimistic about the market conditions in the coming year.

Besides, the Board expects number of travelers visiting China to regain momentum in future, while the World Expo 2010 to be held in Shanghai will boost increase the demands for high-end hotel services. Leveraging the strong brand-name influence and internationally renowned hotel management groups, under the supervision by the Group, which provide quality services and professional management of Shimao Property, the Group is confident that its hotel operations will benefit from these factors to yield fruitful results.

Company Prospects

Against a global market environment still obscured by uncertainties, the Group expect challenges in the future. In 2009, the Group will adjust its sales strategies and strengthen sales efforts to cope with changes in market conditions, while the progression towards national development continues. Apart from launching various major projects such as Shanghai Shimao Riviera Garden, Ningbo Shimao World Gulf and Beijing Shimao Sanlitun, in response to the government's call in encouraging the supply of small-to-medium size residential units to cater for the demands of the general public, the Group will modify product offerings accordingly, with the aim of adapting to market demands while keeping the Group competitive in the market.

In respect of hotel and investment property development, the Group will set strategies for stable development, in pursuit of our pace of development based on market demand and financing conditions. Investment property businesses were transferred to the China A-Share Listed Company for management and development, the spinning-off of hotel business is still underway and its progress will be dependent upon actual market conditions. We hope our development progress could be speeded up when the financing conditions further improve, therefore further perfecting our development strategy spearheaded by three principal businesses and solidifying our business foundation.

With timely and flexible strategic corrections, reinforced sales efforts, enhanced services and product qualities, as well as optimized product portfolio, the Group will be able to maintain its unique competitive edges under adverse economic conditions. Shimao Property will continue to be dedicated in pursuing ever-greater excellence to realize the Group's corporate mission in "Cultivating Lifestyle, Realizing Urban Dreams", while continuing the development of quality real estate projects and maximizing shareholders' return.

FINANCIAL ANALYSIS

Key consolidated income statement figures are set out below:

	2008 RMB million	2007 RMB million
Revenue	**7,196**	9,276
Gross profit	**3,232**	3,960
Operating profit	**2,129**	5,662
Profit attributable to shareholders	**841**	4,092
Profit from core business attributable to shareholders	**1,108**	1,826
Earnings per share - Basic (RMB)	**0.256**	1.274

Revenue

For the year ended 31 December 2008, the revenue of the Group was approximately RMB7.2 billion (2007: RMB9.3 billion), representing a decrease of 22% over 2007. The Group generated 87% (2007: 93%) of the revenue from the sales of properties and 13% (2007: 7%) of the revenue from hotel operation and leasing of commercial properties. The components of the revenue are analysed as follows:

	2008 RMB million	2007 RMB million
Sales of properties	**6,244**	8,631
Hotel operating income	**771**	566
Rental income from investment properties	**180**	79
Unallocated	**1**	—
Total	**7,196**	9,276

(i) Sales of properties

Sales of properties for the years ended 31 December 2008 and 2007 are shown below:

	2008		2007	
	Area (Sq.m.)	**RMB million**	Area (Sq.m.)	RMB million
Beijing Shimao Olive Garden	**20,879**	**572**	153,219	3,050
Wuhan Shimao Splendid River*	**34,089**	**317**	149,450	1,401
Shaoxing Shimao Dear Town	**5,045**	**51**	132,310	1,081
Harbin Shimao Riviera New City	**126,278**	**557**	125,417	531
Changshu Shimao The Center	**119,209**	**854**	97,338	761
Kunshan Shimao Butterfly Bay	**77,060**	**608**	88,372	637
Shanghai Shimao Sheshan Villas	**24,714**	**1,166**	20,963	731
Shanghai Shimao Riviera Garden	**439**	**47**	13,761	439
Kushan Shimao East No. 1	**61,556**	**322**	—	—
Hangzhou Shimao Riviera Garden	**61,793**	**493**	—	—
Shanghai Shimao Emmen Royal County	**5,092**	**42**	—	—
Wuhu Shimao Riviera Garden	**86,849**	**652**	—	—
Fuzhou Shimao Skyscrapers	**6,477**	**136**	—	—
Shenyang Shimao Wulihe	**1,681**	**68**	—	—
Suzhou Shimao Canal Scene	**57,556**	**359**	—	—
Sub-total (a)	**688,717**	**6,244**	780,830	8,631
Nanjing Shimao Bund New City	**6,999**	**91**	105,806	1,140
Fuzhou Shimao Bund Garden	**1,516**	**23**	6,142	128
Sub-total (b)	**8,515**	**114**	111,948	1,268
Sub-total (c) — attributable	**4,258**	**57**	55,974	634
Total (a) + (b)	**697,232**	**6,358**	892,778	9,899
Total (a) + (c)	**692,975**	**6,301**	836,804	9,265

Revenue attributable to the Group generated from associated companies holding Nanjing Shimao Bund New City and Fuzhou Shimao Bund Garden has not been consolidated in the audited consolidated financial statements.

* Attributable interests is 70.01%

(ii) Hotel income

Hotel operating income are analysed below:

	2008	2007
	RMB million	RMB million
Shanghai Le Méridien Sheshan	**123**	125
Le Royal Méridien Shanghai	**370**	365
Shanghai Hyatt on the Bund	**278**	76
Total	**771**	566

Hotel operating income increased approximately 36% to RMB771 million from RMB566 million over the year 2007. Increase was mainly due to full year contribution of Shanghai Hyatt on the Bund, which was opened in the second half year of 2007.

(iii) Rental income

Rental income from investment properties amounted to RMB180 million was generated from the shopping mall of Shanghai Shimao International Plaza and office and shopping mall of Beijing Shimao Tower. The rental income increased by 1.3 times.

	2008 RMB million	2007 RMB million
Shanghai Shimao International Plaza	**153**	79
Beijing Shimao Tower	**27**	—
Total	**180**	79

Cost of sales

The cost of sales are analysed as follows:

	2008 RMB million	2007 RMB million
Sales taxes	**391**	477
Land cost, construction cost and capitalised borrowing costs	**3,191**	4,527
Direct operating costs for hotels and commercial properties	**382**	312
Total	**3,964**	5,316

Fair value losses on investment properties

During the year under review, the Group recorded aggregate fair value losses of RMB123 million (2007: fair value gains RMB1,155 million) contributed by Shanghai Shimao International Plaza and Beijing Shimao Tower. Aggregate fair value losses after relevant deferred income tax of RMB31 million recognised was RMB92 million (2007: fair value gains RMB866 million).

Other gains

Other gains of RMB442 million for the 2008 (2007: RMB1,614 million) included mainly net foreign exchange gain. Decrease was due to a RMB752 million one-off gain on disposal of 29.99% interests in the Wuhan project and negative goodwill of RMB523 million accounted for in 2007.

Selling and marketing costs and administrative expenses

Selling and marketing costs for the year was RMB282 million (2007: RMB192 million). The increase was mainly due to number of projects with selling activities increased. Administrative expenses increased by 40% which was mainly due to an increase of staff costs as a result of increased number of employees and increased administrative expenses of hotel operation.

Operating profit

Operating profit amounted to RMB2.1 billion for the year ended 31 December 2008, an decrease of 62% over 2007.

Finance costs - net

Net finance costs increased to RMB350 million (2007: RMB167 million) mainly due to more interest expenses incurred for increased borrowing in 2008.

Share of results of associated companies & jointly controlled entities

Share of losses of associated companies amounted to RMB3 million (2007: share of profit of RMB113 million). The decrease was mainly due to the two projects, Fuzhou Shimao Bund Garden was mostly sold out before 2008 and Nanjing Shimao Bund New City had no further new completion during 2008. Share of profit of jointly controlled entities amounted to RMB9 million (2007: RMB175,000).

Taxation

The Group's tax provisions amounted to RMB925 million in which LAT was RMB521 million (2007: RMB1,434 million, in which LAT was RMB754 million) for the year.

Profit attributable to shareholders

Profit attributable to shareholders for the year decreased by 79% from RMB4,174 million in 2007 to RMB860 million in 2008. Profit from core business attributable to shareholders of the Company excluding aggregate fair value losses on investment properties net of income tax of RMB92 million (2007: fair value gains RMB866 million) and depreciation and amortization of the three completed hotels net of income tax of RMB173 million (2007: RMB129 million), the net amount of goodwill impaired exceeding negative goodwill realized of RMB2 million (2007: net negative goodwill of RMB459 million), amounted to RMB1.1 billion, representing a decrease of 39% when compared with 2007 profit from core business after excluding same items and one off gain of RMB752 million on disposal of 29.99% interests in Wuhan project and RMB316 million due to reduction of enterprises income tax rate from 33% to 25%.

Liquidity and financial resources

As of 31 December 2008, total assets of the Group were RMB46.5 billion, of which current assets reached RMB21.7 billion. Hotel properties are stated at cost less depreciation and impairment losses rather than at fair market value. In order to provide shareholders with additional non-balance sheet information on the value of the Group's net assets, the Directors have appointed an independent valuer, DTZ, Debenham Tie Leung Limited to perform a fair market valuation of the Group's hotel properties as at 31 December 2008. If these hotels were to be stated at fair market value instead of at cost less depreciation and impairment losses, the Group's net assets value would have been increased by RMB4.6 billion (31 December 2007: RMB5.4 billion). Total liabilities were RMB27.4 billion, whereas non-current liabilities were RMB12.4 billion. Equity attributable to the shareholders of the Company amounted to RMB18.7 billion.

As of 31 December 2008, the Group had aggregate cash and bank balances (including restricted cash balances) of approximately RMB2.0 billion (31 December 2007: RMB5.0 billion), total borrowings amounted to approximately RMB14.4 billion (31 December 2007: RMB11.6 billion). Total net borrowings were RMB12.4 billion (31 December 2007: RMB6.6 billion). Adjusted net gearing ratio (calculated by total borrowings less cash and restricted cash divided by adjusted total equity (after adjustment for the after-tax net valuation surplus of RMB4.6 billion (31 December 2007: RMB5.4 billion) of the three completed hotels)) increased from 27% as at 31 December 2007 to 53% as at 31 December 2008.

The maturity of the borrowings of the Group as at 31 December 2008 is set out as follows:

	RMB million
Bank borrowings	
Within 1 year	3,539
Between 1 and 2 years	3,004
Between 2 and 5 years	2,984
Over 5 years	883
Senior notes	
Between 2 and 5 years	1,681
Over 5 years	2,343

The borrowings were denominated in different currencies set out below:

	Original currency million	RMB equivalent million
US$	928	6,246
HK$	60	53
RMB	8,135	8,135

Financing activities

During the year ended 31 December 2008, the Group issued another US$300 million short term notes and fully repaid on 17 September 2008. In March 2009, the Group has signed a banking credit facility agreement of RMB15 billion with Bank of Agriculture of China. In April 2009, the Group has made a placement with net proceeds of HK$1.9 billion to early repay the US$328 million syndicated loans.

Foreign exchange risks

Other than financing activities such as foreign currency borrowings which were denominated in foreign currencies, the Group conducts its business almost exclusively in RMB. The Group would be affected mainly by the outstanding foreign currency borrowings which include US$328 million syndicated loans, US$600 million senior notes and a HK$60 million bank loan as at 31 December 2008.

Pledge of assets

As of 31 December 2008, the Group had pledged properties, plant and equipment, land use rights, properties under development, completed properties held for sale, investment properties and cash and cash equivalents with a total carrying amount of RMB17.9 billion to secure bank facilities granted to the Group. The corresponding bank loans amounted to approximately RMB7.2 billion.

Contingent liabilities/financial guarantees

As of 31 December 2008, the Group had provided guarantees for approximately RMB2.5 billion in respect of the mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties.

Capital and property development expenditure commitments

As of 31 December 2008, the Group had contracted capital and property development expenditure but not provided for amounted to RMB13.4 billion.

Employees and remuneration policy

As of 31 December 2008, the Group employed a total of 4,077 employees. Total remuneration for the year amounted to RMB426 million. The Group has adopted a performance-based rewarding system to motivate its staff. In addition to a basic salary, year-end bonuses will be offered to those staff with outstanding performance. Share option schemes were adopted to attract and retain talents to contribute to the Group. In relation to staff training, the Group also provides different types of programmes for its staff to improve their skills and develop their respective expertise.

Report of the Directors

Shanghai Shimao Emmen Royal County

Report of the Directors

The directors (the "Directors") of Shimao Property Holdings Limited (the "Company") have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property development, investment and hotel operation. The principal activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 are set out on pages 51 to 134 of this annual report.

The Directors recommended the payment of a final dividend of HK13 cents (2007: HK16 cents) per ordinary share for the year ended 31 December 2008.

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on 2 June 2009, will be payable on 9 June 2009 to the shareholders whose names appear on the register of members of the Company on 2 June 2009. The register of members of the Company will be closed from Friday, 29 May 2009 to Tuesday, 2 June 2009 (both days inclusive). In order to qualify for the above mentioned proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 27 May 2009.

RESERVES

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

BANK AND OTHER BORROWINGS

Particulars of bank and other borrowings of the Company and the Group as at 31 December 2008 are set out in note 22 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB42,649,000 (2007: RMB44,427,000).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

Details of the movements of the share options of the Company during the year are set out on pages 98 and 99 of this annual report.

FINANCIAL HIGHLIGHTS

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors

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

Independent Non-executive Directors

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

In accordance with article 87 of the Company's articles of association, Mr. Hui Sai Tan, Jason, Ms. Kan Lai Kuen, Alice, Mr. Gu Yunchang and Mr. Lam Ching Kam will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

INFORMATION ON SHARE OPTIONS

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

(1) Pre-IPO Share Option Scheme

(a) Movement of share options under the Pre-IPO Share Option Scheme during the year ended 31 December 2008 was as follows:

	Date of grant (DD/MM/YY)	Exercise price per share (HK$)	Number of share options				Exercise period (DD/MM/YY)	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
			As at 1 January 2008	Exercised	Lapsed	As at 31 December 2008		
Name of Directors								
Hui Sai Tan, Jason	09/06/06	5.625	1,848,000	(792,000)	—	1,056,000	01/04/07-08/06/12	8.6
Yao Li	09/06/06	5.625	1,848,000	(396,000)	—	1,452,000	01/04/07-08/06/12	12.14
Ip Wai Shing	09/06/06	5.625	1,792,000	—	(57,600)	1,734,400	01/04/07-08/06/12	—
Tang Ping Fai	09/06/06	5.625	2,248,000	(400,000)	(59,400)	1,788,600	01/04/07-08/06/12	16.78
			7,736,000	(1,588,000)	(117,000)	6,031,000		—
Senior Management and Employees of the Group	09/06/06	5.625	36,031,050	(4,951,400)	(1,579,800)	29,499,850	01/04/07-08/06/12	13.49
			43,767,050	(6,539,400)	(1,696,800)	35,530,850		

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

(c) Options to subscribe for a total of 63,920,000 ordinary shares of the Company have been granted to directors and selected employees on 9 June 2006.

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

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

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

(g) Upon listing of the Company on 5 July 2006, the Pre-IPO Share Option Scheme was terminated and no further option may be granted under the Pre-IPO Share Option Scheme. However, the options granted but not yet exercised shall continue to be valid and exercisable in accordance with the terms of the Pre-IPO Share Option Scheme.

(2) Share Option Scheme

(a) Movement of share options under the Share Option Scheme during the year ended 31 December 2008 was as follows:

			Number of share options					
	Date of grant (DD/MM/YY)	Exercise price per share (HK$)	As at 1 January 2008	Granted	Exercised	Cancelled or forfeited	As at 31 December 2008	Exercise period (DD/MM/YY)
Name of Directors								
Tung Chi Shing	04/02/08	16.24	—	1,860,000	—	(1,860,000)	—	01/04/08-08/06/12
Kan Lai Kuen, Alice	04/02/08	16.24	—	200,000	—	(200,000)	—	01/04/08-08/06/12
Lu Hong Bing	04/02/08	16.24	—	200,000	—	(200,000)	—	01/04/08-08/06/12
Gu Yunchang	04/02/08	16.24	—	200,000	—	(200,000)	—	01/04/08-08/06/12
Lam Ching Kam	04/02/08	16.24	—	200,000	—	(200,000)	—	01/04/08-08/06/12
			—	2,660,000	—	(2,660,000)	—	
Senior Management and Employees of the Group	04/02/08	16.24	—	12,690,000	—	(12,690,000)	—	01/04/08-08/06/12
			—	15,350,000	—	(15,350,000)	—	

Note:

(i) Options to subscribe for a total of 15,350,000 ordinary shares of the Company have been granted to directors and selected employees on 4 February 2008. The closing price immediately before the date on which the options were granted was HK$14.92.

(ii) Options granted to the independent non-executive directors during the year will expire on 8 June 2012 with 50% vesting on 31 March 2008 and 50% on 31 March 2009.

(iii) Options granted to an executive director and employees during the year will expire on 8 June 2012 with 33% vesting on 31 March 2008 and 67% on 31 March 2009.

(iv) Options to subscribe for 15,350,000 ordinary shares of the Company granted to directors and employees on 4 February 2008 lapsed on 19 December 2008, out of which 9,718,500 ordinary shares to be vested on 31 March 2009 were cancelled by forfeiture as the vesting conditions are not satisfied.

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

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

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

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

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

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

(h) Performance targets have been imposed as conditions for the grant of options under the Share Option Scheme.

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

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

DISCLOSURE OF INTERESTS IN SECURITIES

Directors' and chief executive's interests and short position in the share capital of the Company

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

(1) *Long position in the shares of the Company*

Name of Directors	Capacity/ Nature of Interests	Number of ordinary shares held	Approximate percentage of issued share capital
Hui Wing Mau	Interest of controlled corporation	2,037,810,500 (Note)	62.74%
Hui Sai Tan, Jason	Beneficial owner	1,584,000	0.05%
Yao Li	Beneficial owner	1,188,000	0.04%
Ip Wai Shing	Beneficial owner	438,000	0.01%
Tang Ping Fai	Beneficial owner	600,000	0.02%

Note: These 2,037,810,500 shares represents the interest in the Company held by Gemfair Investments Limited and Shiying Finance Limited, companies which are directly wholly-owned by Mr. Hui Wing Mau.

(2) *Long position in the underlying shares of the Company*

Name of Directors	Capacity/ Nature of Interests	Number of underlying shares held	Approximate percentage of issued share capital
Hui Wing Mau	Interest of controlled corporation	78,200,000 (Note)	2.41%

Note: These 78,200,000 shares represent the interest in underlying shares of the Company held through certain unlisted physically settled equity derivatives by Shiying Finance Limited, a company which is directly wholly-owned by Mr. Hui Wing Mau.

Details of the interests of Directors in the share options were stated in the section under the heading "Information on Share Options".

(3) Short position in the underlying shares of the Company

Name of Director	Capacity/ Nature of Interests	Number of underlying shares held	Approximate percentage of issued share capital
Hui Wing Mau	Interest of controlled corporation	17,000,000 (Note)	0.52%

Note: These 17,000,000 shares represent the interest in underlying shares of the Company held through certain unlisted physically settled equity derivatives by Shiying Finance Limited, a company which is directly wholly-owned by Mr. Hui Wing Mau.

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

Directors' Right to Acquire Shares or Debentures

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

Interests of Substantial Shareholders

As at 31 December 2008, the interests and short position of substantial shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long/short position in the shares or underlying shares of the Company

Name	Nature of interest	Number of shares or underlying shares held	Approximate percentage of issued share capital
Long position			
Gemfair Investments Limited ("Gemfair")	(Note 1)	1,947,984,000	59.97%
Overseas Investment Group International (PTC) Limited (formerly, Overseas Investment Group International Limited) ("Overseas Investment")	(Note 2)	1,947,984,000	59.97%
Shiying Finance Limited ("Shiying Finance")	(Note 3)	168,026,500	5.17%
Short position			
Shiying Finance	(Note 3)	17,000,000	0.52%

Notes:

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

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

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

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

ENFORCEMENT OF THE NON-COMPETITION UNDERTAKING

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

In respect of the property business undertaking by all other parties to the Revised Undertaking, Mr. Hui has provided a written confirmation to the Company based on the information available to him, that all parties have conducted their property business in compliance with the terms of the Revised Undertaking during the year 2008 ("Mr. Hui's Confirmation").

Certain information relating to the property projects undertaken by each of the parties to the Revised Undertaking during the year ended 31 December 2008, which is relevant for determining whether the property projects fall within the permitted business scope of each party pursuant to the Revised Undertaking, is summarised (the "Information"). Such information primarily comprises the location, project size in terms of total gross floor areas, and development purposes of each property project, which if it relates to property projects undertaken prior to the Company's listing, those details are stated in the Company's prospectus dated 22 June 2006. The Company has prepared the Information relating to the property projects undertaken by the Group and has secured the Information relating to property projects undertaken by all the other parties to the Revised Undertaking. All the Information and Mr. Hui's Confirmation have been passed to the independent non-executive directors of the Company for their review and strictly based on the Information provided by the Company, they have noted no incidence of non-compliance with the Revised Undertaking by the Group or by any of the other relevant parties.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year ended 31 December 2008, the following Directors were considered to have interests in the following businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.

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

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

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set in note 39 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2008, the Company repurchased 56,184,500 of its own ordinary shares on the Stock Exchange at an aggregate price paid of HK$211,360,730.15. The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Details of the repurchases are as follows:

	Number of shares repurchased	Highest price paid per share (HK$)	Lowest price paid per share (HK$)	Aggregate price paid (HK$'000)
October 2008	27,695,500	4.27	3.05	100,807
November 2008	28,489,000	4.74	3.41	110,553
	56,184,500			211,360

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2008.

CONNECTED TRANSACTION

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

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

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

The Proposed Transaction constitutes a major transaction and a connected transaction of the Company under Chapters 14 and 14A of the Listing rules. Approval from the independent shareholders of the Company and the China Securities and Regulatory Commission have been obtained respectively on 30 November 2007 and 3 September 2008. Transfer of shareholding interests in nine target companies from Peak Gain to Shanghai Shimao have been completed. The remaining relevant procedures and registration in relation to the transfer of the target asset Beijing Shimao Tower are still being processed.

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

CONTINUING CONNECTED TRANSACTION

In June 2007, Morgan Stanley Real Estate Fund VI ("MSREF VI"), through an indirect subsidiary, Mount Profit Investments Limited ("Mount Profit"), acquired a 29.99% equity interest, but a voting power of less than 10%, in Wuhan Shimao Splendid River Real Estate Development Co., Ltd. ("Wuhan Shimao"), a 70.01% indirect subsidiary of the Company. The Stock Exchange exercised its discretion to deem MSREF VI and hence Morgan Stanley Asia Limited ("Morgan Stanley") to be a connected person of the Company by virtue of its considerable influence in Wuhan Shimao.

The Company entered into a mandate agreement ("Mandate Agreement") with Morgan Stanley on 30 June 2008, setting out the terms and conditions pursuant to which the Company can consider and, if thought appropriate, engage Morgan Stanley as a financial adviser, bookrunner, joint global coordinator, sponsor, placement agent, arranger, lender or underwriter in i) fixed income securities transactions, including bond issues, of the Group; ii) equity shares and equity-linked securities transactions, including IPOs, spin-off listings, follow-on offerings, convertible bonds and share buybacks, of the Group; and/or iii) investment banking services, including corporate finance, structuring, syndication financing, mergers and acquisitions advice and services.

The Mandate Agreement is valid for a period from 11 August 2008 (being the date of the relevant resolution approved by the independent shareholders of the Company) to 31 December 2010. Below is the annual cap for the advisory fees or underwriting commission payable by the Company to Morgan Stanley in respect of any engagement of Morgan Stanley for a transaction set out in the Mandate Agreement:

	For the period from 11 August 2008 to 31 December 2008	For the year ended 31 December 2009	For the year ended 31 December 2010
Advisory fees cap	US$20 million	US$20 million	US$20 million
Underwriting commission cap	US$40 million	US$40 million	US$40 million

The indemnity, in accordance with local and international market practice and under normal commercial terms, will be uncapped.

The Company has obtained from the Stock Exchange a waiver from strict compliance with the announcement and independent shareholders' approval requirement under Rule 14A.17 of the Listing Rules for the non-exempt continuing connected transaction.

During the period from 11 August 2008 to 31 December 2008, the Company has not engaged Morgan Stanley to provide any service as set out in the Mandate Agreement.

CONTINUING DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2008 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance which it believes is crucial to the development of the Group and safeguard the interests of the shareholders of the Company. Information on the Company's corporate governance principles and practices is set out in the Corporate Governance Report on page 39 to page 44 of this annual report.

AUDITOR

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

On behalf of the Board
Hui Wing Mau
Chairman

Hong Kong, 27 April 2009

Corporate Governance Report

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

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the financial year ended 31 December 2008 except for one deviation as set out under the paragraph on "Chairman and Chief Executive Officer" below.

A DIRECTORS

A.1 Board of Directors

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

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. During the year 2008, the Board held four meetings. The attendance of the directors of the Company (the "Directors") at the Board meetings is set out below:

Directors	Number of attendance
Executive Directors:	
Hui Wing Mau *(Chairman)*	4/4
Hui Sai Tan, Jason *(Vice Chairman)*	4/4
Yao Li	4/4
Ip Wai Shing	4/4
Tang Ping Fai	4/4
Tung Chi Shing	4/4
Independent Non-executive Directors:	
Kan Lai Kuen, Alice	4/4
Lu Hong Bing	4/4
Gu Yunchang	4/4
Lam Ching Kam	4/4

A.2 Chairman and Chief Executive Officer

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

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

A.3 Board Composition

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

All the Independent Non-executive Directors meet the guidelines for assessment of independence, as set out in Rule 3.13 of the Listing Rules.

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

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

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

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

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

Each of the Executive Directors has entered into a service contract with the Company for a specific term. However, such term is subject to his/her re-appointment by the Company at general meeting upon retirement by rotation pursuant to the articles of association of the Company (the "Articles"). The Articles state that each Director shall retire from office by rotation at least once every three years after he/she was last elected or re-elected and Directors holding offices as chairman and managing director are also subject to retirement by rotation. The Articles also provide that any Director appointed by the Board, either to fill a casual vacancy on the Board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. There is no service contract between the Company and the independent non-executive directors, but they are subject to retirement by rotation and re-election of the annual general meeting pursuant to the articles of association.

A.5 Responsibilities of Directors

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

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

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

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

A.6 Supply of and Access to Information

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

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

B REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

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

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

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

During the year the Remuneration Committee has reviewed the structure of remunerations for Directors and senior management of the Company. Details of the Directors' remuneration are set out in note 28 to the consolidated financial statements of this annual report.

C ACCOUNTABILITY AND AUDIT

C.1 Financial Reporting

The Directors are responsible for overseeing the preparation of the financial statements for each financial period which give a true and fair view of the Group's state of affairs and the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2008, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate accounting standards; made judgements and estimates that are prudent and reasonable; and ensured the accounts are prepared on the going concern basis.

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

A statement by the external auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 49 and 50 of this annual report.

C.2 Internal Controls

The Group has established an internal audit department which plays an important role in the Group's internal control system. The Internal Audit Department provides an independent appraisal of the Group's financial and operational activities and makes recommendations to the relevant management for necessary actions. The results of the internal audit reviews are reported to the Executive Directors and audit committee of the Company periodically. The Directors have reviewed the effectiveness of the Group's internal control system covering financial, operational, compliance and risk management functions, and consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

C.3 Audit Committee

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

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

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

The Audit Committee meets the external auditor at least once a year to discuss any areas of concerns during the audits and considers any matters raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditor. The Audit Committee reviews the interim and annual reports before submission to the Board. The Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

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

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

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

The remuneration to the Company's auditor, Messrs. PricewaterhouseCoopers, in respect of the services rendered for the year ended 31 December 2008 is set out as follows:

Services rendered	RMB'000
Annual audit service	3,000
Other audit related services, review of interim financial information, and services on certain agreed-upon procedures	7,700
	10,700

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

The consolidated annual results of the Group for the year ended 31 December 2008 have been reviewed by the Audit Committee.

D DELEGATION BY THE BOARD

D.1 Management Functions

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

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

D.2 Board Committees

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

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

E COMMUNICATION WITH SHAREHOLDERS

E.1 Effective Communication

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

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

E.2 Voting by Poll

Voting at general meetings of the Company must be taken by poll as set out in Rule 13.39(4) of the Listing Rules so that each share is entitled to one vote. The chairman of general meeting shall at the commencement of the meeting ensure that an explanation is provided of the detailed procedures for conducting a poll and then answer any questions from shareholders regarding voting by way of a poll.

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

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

HUI WING MAU *(CHAIRMAN)*

Mr. Hui Wing Mau, aged 58, is the Chairman and Executive Director of Shimao Property Holdings Limited ("the Company") and the founder of the Group. With over 19 years' experience in property development, property investment and hotel operation, he is primarily responsible for the Group's overall strategic planning and business management. Mr. Hui is currently a member of the National Committee of the Eleventh Chinese People's Political Consultative Conference, vice chairman of the China National Federation of Industry and Commerce, vice president of China Overseas Chinese Entrepreneurs Association chairman of Shanghai Overseas Chinese Chamber of Commerce, vice chairman of China Housing Industry Association, a council member of the China Overseas Friendship Association, an honorary professor of Tong Ji University in Shanghai and vice chairman of the Beijing University of Chemical Technology. Mr. Hui obtained a Masters Degree in Business Administration from the University of South Australia. Mr. Hui is also the non-executive chairman of Shanghai Shimao Co., Ltd. and Shimao International Holdings Limited ("Shimao International"). He is a director of Gemfair Investments Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Future Ordinance. He has been an Executive Director of the Company since 8 November 2004. Mr. Hui is the father of Mr. Hui Sai Tan, Jason, the Vice Chairman and Executive Director of the Company.

HUI SAI TAN, JASON *(VICE CHAIRMAN)*

Mr. Hui Sai Tan, Jason, aged 32, the Vice Chairman and Executive Director of the Company. He has been the Group Sales Controller since he joined the Group in March 2000. Mr. Jason Hui is responsible for the sales, marketing, management and design of the Group's projects. He has more than 10 years' experience in the property development industry and has presided over the sales and marketing of Shanghai Shimao Riviera Garden which boasted top sales proceeds among residential projects in Shanghai for four consecutive years from 2001 to 2004. Mr. Jason Hui obtained a Masters Degree in Business Administration from the University of South Australia in 2004, and a Master of Science Degree in Real Estate from the University of Greenwich, the United Kingdom in 2001. He is a member of Shanghai Committee of the Chinese People's Political Consultative Conference. He has been an Executive Director of the Company since 17 November 2004 and was an executive director of Shimao International Holdings Limited from July 2002 to June 2006. Mr. Jason Hui is the son of Mr. Hui Wing Mau, the Chairman and Executive Director of the Company.

YAO LI

Ms. Yao Li, aged 54, has been the Group Operations Controller since November 2002. Ms. Yao is responsible for loan finance, management of enterprise operation, human resources, training and administrative support of the Group. Ms. Yao obtained a Masters Degree in Business Administration from the University of South Australia with more than 23 years' experience in office administration, human resources management and staff training. Ms. Yao worked for China Construction Bank from 1984 to 2002 and was posted to Hong Kong and Johannesburg between 1994 and 2002. She held various positions in the bank and was the Head of the Hong Kong Training Centre. She was an executive director of Shimao International from February 2004 to February 2005. Ms. Yao has been an Executive Director of the Company since 25 January 2006.

IP WAI SHING

Mr. Ip Wai Shing, aged 53, was the Group Construction Controller when joining the Group in July 2003. Mr. Ip was responsible for overseeing the project constructions developed by the Group, and also the Group Technical Support and Quality Assurance Department. Mr. Ip was also responsible for setting up the Group Hotel Management Department at the beginning of 2004 and successfully had the Le Meridien She Shan Hotel (Shanghai), the Royal Meridien Hotel (Shanghai) and the Hyatt on the Bund Hotel (Shanghai) opened for operation under his supervision. From the beginning of 2008, Mr. Ip has dedicated to the Group Hotel Investment and Management Department responsible for setting up the strategic plan, coordinating pre-IPO activities, overseeing hotel operations and looking after design improvement, construction progress, cost control, quality assurance for the new hotel projects.

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

TANG PING FAI

Mr. Tang Ping Fai, aged 55, has been the Group Contracts Controller since March 2002. Mr. Tang is responsible for monitoring construction budgets, tendering, cost control and contract administration for the Group's projects. He obtained a Masters Degree in Project Management from the University of New South Wales in Australia in 1994. Mr. Tang has more than 29 years' experience in the construction industry. He was a project surveyor of Langdon Every and Seah (Hong Kong) Limited from 1978 to 1988, chief quantity surveyor of China Overseas Building Development Co. Ltd. in 1988, a team leader of Davis Langdon and Seah (China) Limited from 1989 to 1991 and contracts manager of China World Trade Centre Ltd. from 1993 to 2000. Mr. Tang was in charge of a number of property projects as project surveyor, including the Swire Hall of the University of Hong Kong, Sir Run Run Shaw Hall of the Chinese University of Hong Kong, the Hong Kong Convention and Exhibition Centre (Phase I) and China World Trade Centre (Phases I and II) in Beijing. He was an executive director of Shimao International Holdings Limited from February 2004 to February 2005. Mr. Tang is a chartered project management surveyor, a chartered quantity surveyor, a property and facility management surveyor and a fellow member of the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. Mr. Tang has been an Executive Director of the Company since 25 January 2006.

TUNG CHI SHING

Mr. Tung Chi Shing, aged 48, was appointed an Executive Director of the Company on 1 January 2008. He is responsible for the monitoring of project management for the Group's development projects and quality assurance. Mr. Tung graduated from The Hong Kong Polytechnic University and has worked in the Public Works Department of the Hong Kong Government, Dragages et Travaux Publics, FJT (HK) Ltd. and HCCM Nuclear Power Construction Joint Venture Company as quantity surveyor and was involved in a number of projects including Island Shangri-La and Conrad Hong Kong in Pacific Place, Hong Kong, Phase 1B of the University of Hong Kong, Stanley Fort Married Quarters, the Pumping Station Areas of the Daya Bay Nuclear Power Station and a five-star hotel in Xian, PRC. He was an executive director of Shimao International Holdings Limited from February 2005 to December 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

KAN LAI KUEN, ALICE

Ms. Kan Lai Kuen, Alice, aged 54, has been an Independent Non-executive Director of the Company since 16 March 2006 and has more than 17 years' experience in corporate finance. She is a shareholder, managing director and responsible officer of two licensed corporations under the Securities and Futures Ordinance, Asia Investment Management Limited and Asia Investment Research Limited. She is also responsible officer of Lotus Asset Management Limited. Ms. Kan currently serves as an independent non-executive director on the boards of the following companies which are listed on The Stock Exchange of Hong Kong Limited: Shougang Concord Technology Holdings Limited, Shougang Concord International Enterprises Company Limited, Regal Hotels International Holdings Limited, G-Vision International (Holdings) Limited, Sunway International Holdings Limited and China Energine International (Holdings) Limited. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Directors. Ms. Kan held various senior positions in international and local banks and financial institutions.

LU HONG BING

Lu Hong Bing, aged 42, has been an Independent Non-executive Director of the Company since 17 November 2004. He obtained a Masters Degree in law from the East China University of Politics and Law in 1991 and has more than 16 years' experience in corporate and securities laws in China. Mr. Lu currently serves as an independent non-executive director on the boards of the following companies which are listed on the Shanghai Stock Exchange: Shanghai Pudong Road & Bridge Construction Co., Ltd（上海浦東路橋建設股份有限公司）, Shanghai Aerospace Automobile Electromechanical Co., Ltd（上海航天汽車機電股份有限公司）, Shanghai Jiaoda Onlly Co., Ltd（上海交大昂立股份有限公司）, Shanghai Metersbonwe Fashion & Accessories Co., Ltd.（上海美特斯邦威服飾股份有限公司）, Shanghai DaZhong Public Utilities (Group) Co., Ltd（上海大眾公用事業（集團）股份有限公司）. Mr. Lu is an executive partner of the Grandall Legal Group, a vice-president of the Executive Council of the All China Lawyers Association, an arbitrator of the China International Economic and Trade Arbitration Commission, an arbitrator of the Shanghai Arbitration Committee, a concurrent professor of the East China University of Policies and Law and the Shanghai Institute of Foreign Trade and a commissioner of the public offering commission of the Shanghai Stock Exchange and the Shenzhen Stock Exchange. He was an Independent Non-executive Director of the Shimao International Holdings Limited from October 2001 to February 2005.

GU YUNCHANG

Gu Yunchang, aged 65, has been an Independent Non-executive Director of the Company since April 2006. He joined the Ministry of Construction in 1979 and has over 28 years' experience in market theory and policy research, including research and analysis of the PRC property market. In 1983, he was appointed as the Secretary-General of the China Residential Property Issues Research Institute（中國住宅問題研究會）and held this position for a period of 10 years. Between 1986 and 1998, he participated in the research and formulation of the national housing policy reform and in 1998, served as one of the main draftsman for the national housing reform program in the PRC. Mr. Gu has participated in state level research projects such as "2000 China"（《2000年中國》）and "National Xiaokang Residential Property Technological Industry Project"(《小康住宅科技產業工程》). Mr. Gu has been awarded the First Class National Science Technology Advance Award (國家科技進步一等獎) in China twice. Mr. Gu was appointed Vice-President and Secretary-General of the China Real Estate Association (中國房地產業協會) from August 1998 to March 2006, and since 1998, he has been involved in promoting the development of the China real estate industry as well as undertaking the research and analysis of the China real estate market. He is also the main organizer and writer of the China Real Estate Market Report, an annual analysis report issued by the China Real Estate Association. Mr. Gu is currently the Vice President of China Real Estate and Housing Research Association and an independent non-executive director of Sino-Ocean Holdings Limited, a company listed on the Stock Exchange.

LAM CHING KAM

Mr. Lam Ching Kam, aged 48, has been an Independent Non-executive Director of the Company since June 2006. He is currently a fellow member and the committee member of the PRC committee (Quantity Surveying Division) of the Hong Kong Institute of Surveyors. Mr. Lam obtained a Masters Degree in Business Administration from the Hong Kong Open University in 2004 and is a fellow member of the Chartered Institute of Building and the Royal Institution of Chartered Surveyors. Mr. Lam was the Vice Chairman of the Royal Institution of Chartered Surveyors China group from 2003 to 2006. He is a member of the China Civil Engineering Society（中國土木工程師學會會員）and also a qualified China Costing Engineer（中國造價工程師執業資格）. Mr. Lam has been a consultant to the Beijing Construction Project Management Association (北京市建設監理協會) since 2003 and has engaged in professional training and vocational education in China for more than 6 years. Mr. Lam has been in the property development and construction industry for 25 years, and has worked for construction contractors such as Shui On Building Contractors Limited, China State Construction Engineering Corporation and Hopewell Construction Co. Ltd. Mr. Lam was employed as a quantity surveyor and worked in London from 1990 to 1991. He was employed by certain consultant firms and the Architectural Services Department of the Hong Kong Government before he emigrated to Australia in 1996 and operated a project management firm in Sydney. Mr. Lam was the project controller of Sino Regal Ltd. (HK) for investment projects in China from 1994 to 1996. In 1998, Mr. Lam established a surveying and management consultant firm which has been participating in many large-scale projects in China and Macau, including a Beijing Olympic 2008 project involving the hotels, offices towers and commercial complex in Olympic Park, Beijing.

Independent Auditor's Report

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

We have audited the consolidated financial statements of Shimao Property Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 134, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 April 2009

Consolidated Balance Sheet

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**5,403,356**	4,990,516
Investment properties	7	**6,050,000**	5,852,000
Land use rights	8	**6,179,952**	6,581,082
Intangible assets	10	**424,394**	415,995
Associated companies	14	**255,785**	295,142
Jointly controlled entities	15	**1,721,197**	2,662
Deferred income tax assets	23	**437,847**	441,570
Other non-current assets	9	**4,309,904**	3,149,502
		24,782,435	21,728,469
Current assets			
Land use rights under development	8	**8,973,518**	7,270,973
Properties under development	11	**4,175,745**	2,546,641
Completed properties held for sale	12	**4,681,419**	1,521,688
Trade and other receivables and prepayments	16	**1,633,727**	1,124,079
Prepaid income taxes		**148,174**	35,082
Amounts due from related companies	17	**84,915**	31,477
Amount due from a minority interest	18	**—**	6,262
Restricted cash	19	**186,961**	409,553
Cash and cash equivalents	19	**1,814,447**	4,596,378
		21,698,906	17,542,133
Total assets		**46,481,341**	39,270,602
OWNERS' EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	20	**336,015**	340,382
Reserves			
– Proposed final dividend	21	**404,742**	494,088
– Others	21	**17,955,062**	17,613,714
		18,695,819	18,448,184
Minority interests in equity		**341,600**	364,024
Total equity		**19,037,419**	18,812,208

Consolidated Balance Sheet

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	**10,895,097**	10,384,037
Deferred income tax liabilities	23	**1,605,101**	1,639,444
		12,500,198	12,023,481
Current liabilities			
Trade and other payables	24	**6,747,126**	3,850,927
Advanced proceeds received from customers		**1,534,690**	499,980
Income tax payable		**2,958,002**	2,831,555
Borrowings	22	**3,538,906**	1,252,451
Deferred income		**165,000**	—
		14,943,724	8,434,913
Total liabilities		**27,443,922**	20,458,394
Total equity and liabilities		**46,481,341**	39,270,602
Net current assets		**6,755,182**	9,107,220
Total assets less current liabilities		**31,537,617**	30,835,689

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

Balance Sheet of the Company

As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	13	**288,095**	262,362
Current assets			
Amounts due from subsidiaries	13	**18,613,370**	20,038,297
Other receivables and prepayments	16	**66,710**	63,371
Cash and cash equivalents	19	**59,087**	452,409
		18,739,167	20,554,077
Total assets		**19,027,262**	20,816,439
OWNERS' EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	20	**336,015**	340,382
Reserves			
– Proposed final dividend	21	**404,742**	494,088
– Others	21	**10,161,156**	11,216,328
Total equity		**10,901,913**	12,050,798
LIABILITIES			
Non-current liabilities			
Borrowings	22	**4,023,997**	6,647,603
Current liabilities			
Borrowings	22	**2,275,069**	234,100
Other payables and accruals	24	**37,831**	48,059
Amounts due to subsidiaries	13	**1,788,452**	1,835,879
		4,101,352	2,118,038
Total liabilities		**8,125,349**	8,765,641
Total equity and liabilities		**19,027,262**	20,816,439
Net current assets		**14,637,815**	18,436,039
Total assets less current liabilities		**14,925,910**	18,698,401

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

Consolidated Income Statement

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Revenue	5	**7,196,277**	9,275,925
Cost of sales	26	**(3,964,242)**	(5,315,775)
Gross profit		**3,232,035**	3,960,150
Fair value (losses) / gains on investment properties	7	**(122,749)**	1,155,253
Other gains	25	**442,118**	1,614,054
Selling and marketing costs	26	**(281,756)**	(192,433)
Administrative expenses	26	**(1,065,837)**	(757,384)
Other operating expenses	26	**(75,053)**	(117,412)
Operating profit		**2,128,758**	5,662,228
Finance income		**28,005**	102,543
Finance costs		**(377,635)**	(269,774)
Finance costs – net	27	**(349,630)**	(167,231)
Share of results of:			
– Associated companies	14	**(3,132)**	112,870
– Jointly controlled entities	15	**9,498**	175
		6,366	113,045
Profit before income tax		**1,785,494**	5,608,042
Income tax expense	29	**(925,226)**	(1,434,257)
Profit for the year		**860,268**	4,173,785
Attributable to:			
Equity holders of the Company		**841,159**	4,091,782
Minority interests		**19,109**	82,003
		860,268	4,173,785
Dividends	30	**404,742**	974,917
Earnings per share for profit attributable to the equity holders of the Company			
– Basic (RMB)	31	**0.256**	1.274
– Diluted (RMB)	31	**0.254**	1.262

Consolidated Statement of Changes In Equity

For the year ended 31 December 2008

	Note	Attributable to the equity holders of the Company			
		Share capital RMB'000	Reserves RMB'000 (Note 21)	Minority Interests RMB'000	Total RMB'000
Balance at 1 January 2008		**340,382**	**18,107,802**	**364,024**	**18,812,208**
Profit for the year		**—**	**841,159**	**19,109**	**860,268**
Repurchase and cancellation of shares	20(d)	**(4,949)**	**(182,051)**	**—**	**(187,000)**
Acquisition of a subsidiary through acquisition of its assets		**—**	**—**	**10,680**	**10,680**
Acquisition of additional interest in subsidiaries		**—**	**—**	**(23,750)**	**(23,750)**
Employee share option scheme					
– Value of employee services		**—**	**25,733**	**—**	**25,733**
– Proceeds from shares issued	20(b)	**582**	**32,097**	**—**	**32,679**
Dividends	30	**—**	**(464,936)**	**(28,463)**	**(493,399)**
Balance at 31 December 2008		**336,015**	**18,359,804**	**341,600**	**19,037,419**
Balance at 1 January 2007		317,521	11,210,848	—	11,528,369
Profit for the year		—	4,091,782	82,003	4,173,785
Issue of shares for replacement	20(a)	21,506	3,775,339	—	3,796,845
Minority interest arising on disposal of interest in a subsidiary	25(a)	—	—	248,470	248,470
Acquisition of subsidiaries		—	—	33,551	33,551
Employee share option scheme					
– Value of employee services		—	38,557	—	38,557
– Proceeds from shares issued	20(b)	1,355	78,260	—	79,615
Dividends	30	—	(1,086,984)	—	(1,086,984)
Balance at 31 December 2007		340,382	18,107,802	364,024	18,812,208

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Operating activities			
Net cash generated from/(used in) operations	32	**2,147,612**	(2,669,727)
Interest received		**28,005**	107,579
Interest paid		**(954,459)**	(569,623)
PRC income tax paid		**(942,487)**	(517,683)
Net cash generated from/(used in) operating activities		**278,671**	(3,649,454)
Investing activities			
Additions of property, plant and equipment and investment properties		**(1,454,785)**	(1,301,662)
Sales of property, plant and equipment		**2,580**	2,273
Repurchase and cancellation of shares		**(187,000)**	—
Additions of land use rights		**(2,431,057)**	(2,348,237)
Dividends received from associated companies		**65,200**	128,975
Decrease/(increase) in amount due from a minority interest		**6,262**	(6,262)
Increase in amounts due from related companies		**(80,600)**	—
Acquisition of minority interests	37	**(1,998)**	—
Acquisitions of subsidiaries, net of cash acquired		**—**	(1,391,409)
Loans to jointly controlled entities		**(1,717,525)**	—
Capital injection to a jointly controlled entity		**—**	(2,000)
Partial disposal of a subsidiary	25(a)	**—**	1,000,000
Net cash used in investing activities		**(5,798,923)**	(3,918,322)
Financing activities			
Proceeds from borrowings		**5,620,864**	7,048,660
Repayments of borrowings		**(2,388,981)**	(3,189,660)
Decrease in amount due to a related company		**—**	(280,725)
Issue of new shares		**32,679**	3,876,460
Dividends paid to equity holders of the Company		**(464,936)**	(1,086,984)
Dividend paid to a minority interest		**(28,463)**	—
Net cash generated from financing activities		**2,771,163**	6,367,751
Net decrease in cash and cash equivalents		**(2,749,089)**	(1,200,025)
Cash and cash equivalents at beginning of the year		**4,596,378**	5,949,589
Effect of foreign exchange rate changes		**(32,842)**	(153,186)
Cash and cash equivalents at end of the year	19	**1,814,447**	4,596,378

Notes to the Consolidated Financial Statements

1 General information

Shimao Property Holdings Limited (the "Company") was incorporated in the Cayman Islands on 29 October 2004 as an exempted company with limited liability under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY 1-1111 Cayman Islands. The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the "Group") are property development, property investment and hotel operation in the People's Republic of China (the "PRC").

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

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

The Group meets its working capital requirements mainly through sales of properties and borrowings from banks. The directors have prepared cash flow projections for the period up to 30 April 2010. Key assumptions used in the preparation of the cash flow projections and certain additional financings are disclosed in Note 3(c). Should there be any unexpected changes in economic conditions affecting the anticipated cash flows, the Group has a number of alternative plans, as disclosed in Note 3(c), to mitigate the potential impacts. The directors consider that the Group will have sufficient financial resources to finance its operations and continue as a going concern in the foreseeable future. Consequently, the directors have prepared the financial statements on the going concern basis.

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

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

In 2008, the Group adopted the following amendment and interpretation of HKFRS, which are effective for the financial year ended 31 December 2008 and are relevant to the Group's operations:

- The HKAS 39, "Financial instruments: Recognition and Measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met . The related amendment to HKFRS 7, "Financial instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- HK(IFRIC) - Int 11, "HKFRS 2 - Group and Treasury Share Transactions", provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The Group had chosen to early adopt this interpretation since the financial year ended 31 December 2006.

Certain new standards, amendments and interpretations to existing standards of HKFRS have been published but are not yet effective for annual period beginning on 1 January 2008 and have not been early adopted by the Group. Those that are relevant to the Group's operations are as follows:

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

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply this revised standard from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

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

- HKAS 27 (Revised), "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply the revised standard prospectively to transactions with non-controlling interests from 1 January 2010.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- HKFRS 3 (Revised), "Business Combinations" (effective for business combinations with acquisition date on or after the beginning of the first annual periods beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply the revised standard prospectively to all business combinations from 1 January 2010.

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

- HK(IFRIC) - Int 15, "Agreements for Construction of Real Estates" (effective for annual periods beginning on or after 1 January 2009) supercedes HK Int-3, "Revenue - Pre-completion Contracts for the Sale of Development Properties". HK(IFRIC) - Int 15 clarifies whether HKAS 18, "Revenue" or HKAS 11, "Construction Contracts" should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. The Group will apply this interpretation from 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated financial statements.

- HKFRS 2 (Amendment), "Share-based Payment" (effective for annual periods beginning on or after 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the amendment from 1 January 2009, but it is not expected to have a significant impact on the Group's consolidated financial statements.

- HKICPA's improvements to HKFRS published in October 2008

  > HKAS 1 (Amendment), "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, "Financial instruments: Recognition and Measurement" are examples of current assets and liabilities respectively. The Group will apply the amendment from 1 January 2009. It is not expected to have any significant impact on the Group's consolidated financial statements.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- HKICPA's improvements to HKFRS published in October 2008 (continued)

  > HKAS 23 (Amendment), "Borrowing Costs" (effective for annual periods beginning on or after 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 "Financial Instruments: Recognition and Measurement". This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the amendment from 1 January 2009.

  > HKAS 28 (Amendment), "Investments in Associates" (and consequential amendments to HKAS 32, "Financial Instruments: Presentation" and HKFRS 7, "Financial Instruments: Disclosures") (effective for annual periods beginning on or after 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the amendment to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

  > HKAS 36 (Amendment), "Impairment of Assets" (effective for annual periods beginning on and after 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the amendment and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  > HKAS 40 (Amendment), "Investment Property" (and consequential amendments to HKAS 16) (effective for accounting periods beginning on or after 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The Group will apply the amendment to measure the value of investment property under construction from 1 January 2009.

  > There are a number of minor amendments to HKFRS 7, "Financial Instruments: Disclosures", HKAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", HKAS 10, "Events After the Balance Sheet Date", HKAS 18, "Revenue" and HKAS 34, "Interim Financial Reporting" which are not addressed above. These amendments are unlikely to have any significant impact on the Group's consolidated financial statements and have therefore not been analysed in detail.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

- HKAS 32 (Amendment), "Financial Instruments: Presentation", and HKAS 1 (Amendment), "Presentation of Financial Statements" - "Puttable financial instruments and obligations arising on liquidation" (effective for annual periods beginning on or after 1 January 2009).
- HKFRS 1 (Amendment), "First Time Adoption of HKFRS" and HKAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009).
- HK(IFRIC) - Int 16 , "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008)
- HK(IFRIC) - Int 17 - "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009).
- HK(IFRIC) - Int 18, "Transfers of Assets from Customers" (effective for transfers on or after 1 July 2009).
- HKFRS 39 (Amendment), "Financial Instruments: Recognition and Measurement" - "Eligible hedged items"(effective for annual periods beginning on or after 1 July 2009).
- HKICPA's improvements to HKFRS published in October 2008
  - > HKAS 19 (Amendment), "Employee Benefits" (effective for annual periods beginning on or after 1 January 2009).
  - > HKAS 16 (Amendment), "Property, Plant and Equipment" (and consequential amendment to HKAS 7, "Statement of Cash Flows") (effective for annual periods beginning on or after 1 January 2009).
  - > HKAS 20 (Amendment), "Accounting for Government Grants and Disclosure of Government Assistance" (effective for annual periods beginning on or after 1 January 2009).
  - > HKAS 27 (Amendment), "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2009).
  - > HKAS 28 (Amendment), "Investments in Associates" (and consequential amendments to HKAS 32, "Financial Instruments: Disclosures") (effective for annual periods beginning on or after 1 January 2009).
  - > HKAS 29 (Amendment), "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 January 2009).
  - > HKAS 31 (Amendment), "Interests in Joint Ventures" (and consequential amendments to HKAS 32 and HKFRS 7) (effective for annual periods beginning on or after 1 January 2009).
  - > HKAS 38 (Amendment), "Intangible Assets" (effective for annual periods beginning on or after 1 January 2009).
  - > HKAS 41 (Amendment), "Agriculture" (effective for annual periods beginning on or after 1 January 2009).

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- HKICPA's improvements to HKFRS published in October 2008 (continued)

  > HKFRS 5 (Amendment), "Non-current Assets Held for Sale and Discontinued Operations" (and consequential amendment to HKFRS 1, "First-time adoption") (effective for annual periods beginning on or after 1 July 2009).

  > HKAS 39 (Amendment), "Financial Instruments: Recognition and Measurement" (effective for annual periods beginning on or after 1 January 2009).

(b) Consolidation

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

(i) Subsidiaries

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(b) Consolidation (continued)

(ii) Transactions with minority interests

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities are recognised in profit or loss as part of the fair value gain or loss.

2 Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

(iii) Group companies

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

- Assets and liabilities are translated at the closing rate;
- Income and expenses are translated at average exchange rates; and
- All resulting exchange differences are recognised as a separate component of equity.

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

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

(e) Property, plant and equipment

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

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(f) Assets under construction

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

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

(g) Investment property

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

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

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

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(g) Investment property (continued)

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

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

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

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

(i) Intangible assets - goodwill

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

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

2 Summary of significant accounting policies (continued)

(j) Associated companies

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

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

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

(k) Jointly controlled entities

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

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

(l) Properties under development

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

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

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

2 Summary of significant accounting policies (continued)

(m) Completed properties held for sale

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

Cost comprises development costs attributable to the unsold properties.

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

(n) Trade and other receivables

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

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

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

(o) Cash and cash equivalents

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

(p) Share capital

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

(q) Trade payables

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

2 Summary of significant accounting policies (continued)

(r) Borrowings

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

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

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

(s) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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

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

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

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

2 Summary of significant accounting policies (continued)

(t) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefits

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

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

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

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

(iii) Share-based compensation

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

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

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

2 Summary of significant accounting policies (continued)

(u) Provisions and contingent liabilities

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

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

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

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

(v) Revenue recognition

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

(i) Sales of properties

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

(ii) Interest income

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

(iii) Rental income

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

2 Summary of significant accounting policies (continued)

(v) Revenue recognition (continued)

(iv) Hotel operating income

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

(v) Dividend income

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

(w) Government grants

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

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

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

(x) Leases

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(y) Dividend distribution

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

(z) Insurance contracts

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

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

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

3 Financial risk management

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

(a) Market risk

(i) Foreign exchange risk

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

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

As at 31 December 2008, if RMB had strengthened/weakened by 5%, against US dollar and HK dollar with all other variables held constant, post-tax profit for the year would have been RMB232,456,000 (2007: RMB335,314,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of US dollar and HK dollar denominated bank deposits, senior notes and bank borrowings. Profit is less sensitive to movement in RMB/US dollar exchange rate in 2008 than in 2007 because of decreased amount of US dollar and HK dollar denominated bank borrowings.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

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

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

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

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

If interest rates on RMB denominated borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB2,278,000 (2007: RMB2,625,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates. If interest rates on US dollar and HK dollar denominated borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB822,000 (2007: RMB1,531,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates.

3 Financial risk management (continued)

(b) Credit risk

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

Cash transactions are limited to high-credit-quality institutions. The table below shows the bank deposit balances of the major counterparties as at 31 December 2008.

		As at 31 December	
		2008	2007
Counterparty	**Rating (note)**	**RMB'000**	RMB'000
Bank A	A -	**444,389**	1,859,804
Bank B	A -	**380,601**	266,823
Bank C	BBB +	**285,914**	124,805
Bank D		**200,000**	—
Bank E	BBB	**195,175**	252,027
Bank F	A -	**125,698**	573,721
Bank G	BBB -	**100,416**	140,850
Bank H	A	**12,894**	408,560
		1,745,087	3,626,590

Note: The source of credit rating is from Standard and Poor's. There is no available credit rating for Bank D.

The Group has policies in place to ensure that sales of properties are made to buyers with an appropriate financial strength and appropriate percentage of down payment. Meanwhile, the Group has the right to cancel the sales contract in the event that the buyers default in payment, and put the underlying properties back to the market for re-sales. Therefore, the credit risk from sales of properties is limited. Other receivables mainly comprise deposits made to government agencies for property development projects.

(c) Liquidity risk

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

As described in Note 22(b), the Group has decided to accelerate the repayments of the syndicated loan of US$328,000,000 (equivalent to RMB2,241,749,000). The Group has planned to repay the entire syndicated loan from the following sources: (1) net proceeds of approximately HK$1,937,777,000 (equivalent to RMB1,708,926,000) from placing and subscription of Company's ordinary shares completed on 9 April 2009 (Note 39); and (2) current cash balances held by the Group for the remaining balance equivalent to approximately RMB532,823,000.

Besides the acceleration of repayment of the syndicated loan as described above, the Group has obligations to repay other bank loans of approximately RMB1,316,750,000 and related interests, together with other short term liabilities such as trade and other payables. The payment of these short term liabilities largely depends on the Group's abilities in generating sufficient working capital from sales of properties in the following year and in securing new financing facilities to meet its payments of development costs and repayment of the debts.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

The directors have prepared cash flow projections for the period up to 30 April 2010, taking into consideration the above repayment of syndicated loan and proceeds from share placement.

The key assumptions used in the cash flow projections include: (1) unit selling price in 2009 is not expected to fluctuate significantly from that of 2008; and sales volume in 2009 is expected to be higher than that of 2008. These assumptions are due to expectation of restoration of market confidence, evidenced by satisfactory contracted sales to the Group in the first quarter of 2009; (2) construction work for certain new projects can be successfully commenced and pre-sales permits can be successfully obtained around mid 2009; (3) payment schedules for certain land cost are delayed due to a slow down in the government resettlement activities and delivery of the land, and relaxation in recent local government policies which lead to extending the land settlement schedule; (4) payment of construction costs is not expected to be accelerated as compared to that of 2008; (5) the construction of investment properties and hotel projects is slowing down in order to focus resources for the development of properties for sale; and (6) acquisition of new land parcels and new projects are not anticipated as the Group has sufficient land bank for future development.

In the cash flow projections, the Group has also considered certain committed facilities which have not been drawn down by the project companies and newly secured bank borrowings of certain new projects subsequent to the year end. These secured financing facilities, in aggregate, amount to approximately RMB2,400,000,000.

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2008					
Borrowings	**3,538,906**	**3,044,600**	**4,624,659**	**3,225,838**	**14,434,003**
Interests payments on borrowings (note)	**724,501**	**557,756**	**950,509**	**657,067**	**2,889,833**
Trade and other payables	**6,732,563**	**5,680**	**4,791**	**4,092**	**6,747,126**
	10,995,970	**3,608,036**	**5,579,959**	**3,886,997**	**24,070,962**
As at 31 December 2007					
Borrowings	1,252,451	707,422	6,420,031	3,256,584	11,636,488
Interests payments on borrowings	735,867	695,102	1,344,406	477,625	3,253,000
Trade and other payables	3,802,586	33,382	11,697	3,262	3,850,927
	5,790,904	1,435,906	7,776,134	3,737,471	18,740,415

Note: The interest on borrowings is calculated based on borrowings outstanding as at 31 December 2008 and 2007 without taking into account of future issues. Floating-rate interest is estimated using the current interest rate as at 31 December 2008 and 2007 respectively.

3 Financial risk management (continued)

(d) Capital risk management

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

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

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

The gearing ratios at 31 December 2008 and 2007 were as follows:

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Total borrowings	**14,434,003**	11,636,488
Less: Cash and cash equivalents	**(1,814,447)**	(4,596,378)
Restricted cash for the Group's borrowings	**(111,566)**	(288,885)
Net debt	**12,507,990**	6,751,225
Total equity	**19,037,419**	18,812,208
Gearing ratio	**65.7%**	35.9%

The increase in gearing ratio was mainly due to the increase in bank borrowings to finance acquisition of land parcels and significant decrease in cash and cash equivalents.

(e) Fair value estimation

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

4 Critical accounting estimates and judgements

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

(a) Income taxes and deferred taxation

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

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

(b) Land appreciation tax

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

(c) Impairment of goodwill

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

4 Critical accounting estimates and judgements (continued)

(d) Estimated fair value of investment properties

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

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

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

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

The Group assesses the fair value of its investment properties based on valuations determined by independent professional qualified valuers.

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

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

5 Segment information

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

(a) Revenue

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

	Year ended at 31 December	
	2008	2007
	RMB'000	RMB'000
Sales of properties	**6,244,120**	8,631,302
Hotel operating income	**771,227**	565,979
Rental income from investment properties	**180,135**	78,644
Unallocated	**795**	—
	7,196,277	9,275,925

5 Segment information (continued)

(b) Segment information

Primary reporting format - business segments

Year ended 31 December 2008

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue	**6,244,120**	**771,227**	**180,135**	**795**	**7,196,277**
Segment results	**2,116,624**	**33,395**	**(54,437)**	**33,176**	**2,128,758**
Finance costs – net	**(35,462)**	**(76,575)**	**(115,838)**	**(121,755)**	**(349,630)**
Share of results of					
– Associated companies	**(3,132)**	**—**	**—**	**—**	**(3,132)**
– Jointly controlled entities	**8,707**	**—**	**—**	**791**	**9,498**
Profit/(loss) before income tax	**2,086,737**	**(43,180)**	**(170,275)**	**(87,788)**	**1,785,494**
Income tax expense					**(925,226)**
Profit for the year					**860,268**
Other segment items are as follows:					
Capital and property development expenditure	**11,041,855**	**223,898**	**189,426**	**14,117**	**11,469,296**
Depreciation	**13,730**	**203,986**	**1,435**	**5,071**	**224,222**
Amortisation of land use rights	**6,808**	**28,582**	**—**	**—**	**35,390**
Write-down of completed properties held for sale to net realisable value	**87,381**	**—**	**—**	**—**	**87,381**
Impairment of goodwill	**9,198**	**—**	**—**	**—**	**9,198**
Negative goodwill arising from acquisition of additional interest in a subsidiary	**6,841**	**—**	**—**	**—**	**6,841**
Fair value losses on investment properties	**—**	**—**	**122,749**	**—**	**122,749**
Provision for impairment of receivables	**—**	**—**	**2,314**	**—**	**2,314**

5 Segment information (continued)

(b) Segment information (continued)

Primary reporting format - business segments (continued)

The segment assets and liabilities at 31 December 2008 are as follows:

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	26,659,196	6,750,551	9,957,734	699,031	44,066,512
Associated companies	255,785	—	—	—	255,785
Jointly controlled entities	1,717,744	—	—	3,453	1,721,197
	28,632,725	6,750,551	9,957,734	702,484	46,043,494
Deferred income tax assets					437,847
Total assets					46,481,341
Segment liabilities	9,862,400	464,696	482,639	595,083	11,404,818
Borrowings	5,146,730	2,099,900	598,000	6,589,373	14,434,003
	15,009,130	2,564,596	1,080,639	7,184,456	25,838,821
Deferred income tax liabilities					1,605,101
Total liabilities					27,443,922

5 Segment information (continued)

(b) Segment information (continued)

Primary reporting format - business segments (continued)

Year ended 31 December 2007

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

5 Segment information (continued)

(b) Segment information (continued)

Primary reporting format - business segments (continued)

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

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

Unallocated costs mainly represent corporate expenses.

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

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

6 Property, plant and equipment - Group

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2008	695,135	4,169,782	49,381	30,217	291,646	5,236,161
Acquisition of a subsidiary	—	—	958	—	—	958
Transfer from investment property	—	—	—	—	34,000	34,000
Additions	585,372	30,077	15,496	13,076	113,546	757,567
Amortisation of land use rights	89,037	—	—	—	—	89,037
Disposals	—	(353)	(4,835)	(5,717)	—	(10,905)
Transfer to investment properties	(194,479)	—	—	—	—	(194,479)
Transfer upon completion	(5,771)	—	—	—	5,771	—
Cost adjustments	—	(48,222)	—	—	—	(48,222)
Reclassification	—	19,223	(20,097)	874	—	—
At 31 December 2008	1,169,294	4,170,507	40,903	38,450	444,963	5,864,117
Accumulated depreciation						
At 1 January 2008	—	204,614	14,360	14,198	12,473	245,645
Acquisition of a subsidiary	—	—	94	—	—	94
Charge for the year	—	202,998	5,685	6,772	8,767	224,222
Reclassification	—	1,231	(1,345)	114	—	—
Disposals	—	(284)	(4,224)	(4,692)	—	(9,200)
At 31 December 2008	—	408,559	14,570	16,392	21,240	460,761
Net book value						
At 31 December 2008	1,169,294	3,761,948	26,333	22,058	423,723	5,403,356

6 Property, plant and equipment - Group (continued)

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

Depreciation charge of RMB224,222,000 for the year ended 31 December 2008 (2007: RMB158,432,000) has been recorded in cost of sales and administrative expenses in the consolidated income statement (Note 26).

As at 31 December 2008, assets under construction and buildings of the Group with a total carrying amount of RMB3,727,388,000 (2007 RMB3,884,379,000) were pledged as collateral for certain bank borrowings of the Group (Note 22).

As at 31 December 2008, interest capitalised in assets under construction amounted to RMB24,492,000 (2007: RMB16,592,000).

The capitalisation rate of borrowings was 6.8% for the year ended 31 December 2008 (2007: 7.2%).

7 Investment properties - Group

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Opening balance	**5,852,000**	4,000,000
Additions		
– Transfer from assets under construction	**194,479**	681,018
– Transfer from properties under development	**39,054**	—
– Transfer from land use rights	**87,416**	—
– Other additions	**33,800**	15,729
– Transfer to self-use buildings	**(34,000)**	—
Fair value (losses)/gains	**(122,749)**	1,155,253
Ending balance	**6,050,000**	5,852,000

The investment properties were revalued on an open market value and existing use basis at each balance sheet date by DTZ Debenham Tie Leung Limited, an independent professional qualified valuer. The valuations were based on current prices in an active market for similar properties or estimated by adopting Income Capitalization approach based on existing and current market rents for similar properties, using capitalisation rates that reflect current market assessments of the uncertainty in the market.

As at 31 December 2008, the Group's investment properties were held in the PRC on leases of between 10 to 50 years. Investment properties with a carrying amount of RMB5,646,000,000 (2007: RMB5,852,000,000) were pledged as collateral for the Group's borrowings (Note 22).

8 Land use rights - Group

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Opening balance	**13,852,055**	4,356,920
Additions		
– Acqusition of subsidiaries	**—**	2,516,000
– Other additions	**2,302,218**	8,036,774
Amortisation		
– Capitalised in property, plant and equipment	**(89,037)**	(50,808)
– Capitalised in properties under development	**(117,986)**	(80,189)
– Recognised as expenses	**(35,390)**	(32,123)
Transfer to cost of sales	**(670,974)**	(894,519)
Transfer to investment properties	**(87,416)**	—
Ending balance	**15,153,470**	13,852,055
Land use rights		
– relating to property, plant and equipment under non-current assets	**6,179,952**	6,581,082
– relating to properties developed for sale under current assets	**8,973,518**	7,270,973
	15,153,470	13,852,055
Outside Hong Kong, held on leases of:		
Over 50 years	**7,875,031**	6,425,310
Between 10 to 50 years	**7,278,439**	7,426,745
	15,153,470	13,852,055

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

As at 31 December 2008, land use rights of RMB7,190,119,000 (2007: RMB2,780,897,000) were pledged as collateral for the Group's bank borrowings (Note 22).

9 Other non-current assets - Group

As at 31 December 2008, the Group had made prepayments of RMB3,525,804,000 (2007: RMB2,679,501,000) for certain land use rights, the ownership certificates of which have not been obtained. As at 31 December 2008, RMB784,100,000 (2007: RMB470,001,000) have been advanced to certain local government authorities for land resettlement and site formation. These amounts are included in other non-current assets.

10 Intangible assets - Group

Intangible assets comprise goodwill arising from acquisitions:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Opening balance	**415,995**	475,023
Goodwill on acquisition of additional interest in a subsidiary (Note 37(b))	**17,597**	4,674
Impairment of goodwill recognised as expenses (Note 26)	**(9,198)**	(63,702)
Ending balance	**424,394**	415,995

Impairment tests for goodwill

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Property development	**293,466**	285,067
Hotel operation	**130,928**	130,928
	424,394	415,995

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

Under property development CGU, certain underlying properties were completed and sold during the year, and the attributable goodwill totalling RMB9,198,000 (2007: RMB23,553,000) cannot be substantiated and therefore is considered impaired.

Under property investment CGU, the underlying property was completed and transferred into investment properties during the year ended 31 December 2007, and the relevant goodwill totalling RMB40,149,000 could not be substantiated and therefore was considered impaired in 2007.

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

11 Properties under development - Group

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Properties under development comprise:		
Construction costs and capitalised expenditures	**3,651,120**	2,200,323
Interests capitalised	**524,625**	346,318
	4,175,745	2,546,641

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Interest capitalised		
Opening balance	**346,318**	72,323
Additions	**536,649**	408,659
Transfer to cost of sales	**(111,264)**	(112,011)
Transfer to completed properties held for sale	**(247,078)**	(22,653)
Ending balance	**524,625**	346,318

The properties under development are all located in the PRC.

As at 31 December 2008, properties under development of approximately RMB 962,866,514 (2007: RMB421,643,000) were pledged as collateral for the Group's bank borrowings (Note 22).

The capitalisation rate of borrowings was 7.18% for the year ended 31 December 2008 (2007: 6.74%).

12 Completed properties held for sale - Group

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

As at 31 December 2008, completed properties held for sale of approximately RMB 342,370,000 (2007: RMB253,487,000) were pledged as collateral for the Group's bank borrowings (Note 22).

For the year ended 31 December 2008, provision of RMB87,381,000 (2007: RMB24,913,000) has been made to write down certain completed properties to their net realisable value.

13 Investments in and balances with subsidiaries - Company

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Unlisted shares, at cost	**288,095**	262,362
Amounts due from subsidiaries	**18,613,370**	20,038,297
Amounts due to subsidiaries	**1,788,452**	1,835,879

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

Details of the principal subsidiaries of the Group as at 31 December 2008 are set out in Note 34.

14 Associated companies - Group

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Share of net assets:		
Opening balance	**295,142**	311,247
Capital injection (Note 17(ii))	**28,975**	—
Share of results		
– (Loss)/profit before income tax	**(6,599)**	237,620
– Income tax credit/(charge) (Note 29)	**3,467**	(124,750)
Dividends received	**(65,200)**	(128,975)
Ending balance	**255,785**	295,142

14 Associated companies - Group (continued)

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

Name	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net (loss)/ profit RMB'000	% of interest held by the Group
2008					
Fuzhou Shimao Investment Development Co., Ltd. ("Fuzhou Project JV")	**295,022**	**184,804**	**22,857**	**16,160**	**50%**
Nanjing Shimao Real Estate Development Co., Ltd. ("Nanjing Project JV")	**1,642,014**	**1,240,662**	**91,417**	**(22,423)**	**50%**
	1,937,036	**1,425,466**	**114,274**	**(6,263)**	
2007					
Fuzhou Project JV	426,635	253,482	127,628	25,708	50%
Nanjing Project JV	1,605,178	1,188,047	1,140,181	200,032	50%
	2,031,813	1,441,529	1,267,809	225,740	

Details of the associated companies of the Group as at 31 December 2008 are set out in Note 34.

15 Jointly controlled entities - Group

	Year ended 31 December 2008 RMB'000	2007 RMB'000
Share of net assets:		
Opening balance	**2,662**	487
Acquisition of a jointly controlled entity (note (i))	**—**	—
Partial disposal of a jointly controlled entity (note (i))	**—**	—
Capital injection	**—**	2,000
Share of results		
– Profit for the year	**9,498**	175
Ending balance	**12,160**	2,662
Advances to jointly controlled entities (note (ii))	**1,709,037**	—
	1,721,197	2,662

Notes:

(i) On 11 January 2008, the Group and China Overseas Land & Investment Ltd. ("COLI Group") acquired land use rights of two pieces of land in the city of Hangzhou, respectively. On 17 January 2008, the Group and the COLI Group entered into two subscription agreements and formed two jointly controlled entities for the purpose of the joint development of the two pieces of land. As a result, the Group acquired 50% interest of Kingtron Enterprises Limited, a subsidiary of COLI Group, at a consideration of HK$1; and COLI Group acquired 50% interest of Fast Right Limited, a subsidiary of the Group, by capital injection of HK$1 during the year.

(ii) As at 31 December 2008, the Group made advances of approximately RMB920,967,000 and RMB788,070,000 to the jointly controlled entities, namely Fast Right Investment Limited and Kingtron Enterprise Limited to finance their acquisition of land use rights. The advances are interest free, unsecured and have no fixed repayment terms.

Details of the jointly controlled entities of the Group as at 31 December 2008 are set out in Note 34.

16 Trade and other receivables and prepayments

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Group		
Trade receivables – net (note (a))	**809,587**	518,105
Deposits for resettlement costs	**208,748**	198,450
Other receivables	**247,342**	235,100
Prepayments for construction costs	**279,455**	137,930
Prepaid business tax on pre-sale proceeds	**88,595**	34,494
	1,633,727	1,124,079

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Company		
Other receivables and prepayments	**66,710**	63,371

Notes:

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Within 90 days	**567,132**	503,788
Over 90 days and within 365 days	**201,068**	14,317
Over 365 days	**41,387**	—
	809,587	518,105

The Group normally holds collateral of the properties before receipts of respective balance and passing the legal titles of the properties. As at 31 December 2008, receivables arising from sales of properties was approximately RMB773,000,000 (2007: RMB508,000,000).

As at 31 December 2008, provision for impairment of receivables was approximately RMB2,314,000 (2007: Nil).

As at 31 December 2008, the fair value of trade receivables, deposits for resettlement costs, and other receivables of the Group and the Company approximate their carrying amounts.

17 Amounts due from related companies - Group

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Common directors		
Shanghai Shimao Enterprise Development Co., Ltd. ("Shimao Enterprises") (note (i))	**81,129**	196
Shanghai Shimao Co., Ltd. ("Shanghai Shimao")	**542**	281
Shimao International Holdings Limited ("Shimao International")	**529**	281
Shanghai Mason Club Co., Ltd. ("Shanghai Mason")	**60**	60
Associated companies		
Fuzhou Project JV	**1,324**	282
Nanjing Project JV (note (ii))	**626**	29,457
Jointly controlled entities		
Shanghai Shimao Savills Property Management Co., Ltd. ("Shimao First Pacific")	**593**	920
Hai Shu Investment Management (Hangzhou) Co., Ltd. ("Hai Shu Investment")	**112**	—
	84,915	31,477

Notes:

(i) As at 31 December 2008, the Group made prepayments of approximately RMB81,129,000 in relation to subscription of new shares of Shimao Enterprises (Note 38(a)(vi)).

(ii) During the year ended 31 December 2008, the Group utilised the dividend receivable from Nanjing Project JV for further capital injection (Note 14).

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

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

18 Amount due from a minority interest - Group

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Shaanxi Golden Enterprises Co., Ltd.	**—**	6,262

The balance due from a minority interest is unsecured, interest-free and has no fixed repayment terms. The amount of RMB6,262,000 due from Shaanxi Golden Enterprises Co., Ltd. was settled in 2008.

19 Cash and cash equivalents

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Group		
Bank balances and cash		
- denominated in RMB	**1,901,160**	4,283,202
- denominated in US dollar	**90,590**	432,539
- denominated in HK dollar	**9,658**	290,190
Less: Restricted cash	**(186,961)**	(409,553)
	1,814,447	4,596,378

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Company		
Bank balances and cash - unrestricted		
- denominated in US dollar	**54,920**	432,539
- denominated in HK dollar	**4,167**	19,870
	59,087	452,409

As at 31 December 2008, the Group's cash of approximately RMB75,395,000 (2007: RMB120,668,000) was restricted and deposited in certain banks as guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties and cash of RMB111,566,000 (2007: RMB288,885,000) was pledged as security for bank borrowings (Note 22).

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

The effective interest rate on bank deposits as at 31 December 2008 was 0.34% (2007: 1.03%).

20 Share capital

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

	Note	Par value HK$	Number of shares '000	Nominal value of ordinary shares HK$'000	RMB'000
Authorised:					
At 31 December 2008 and 2007		0.1	5,000,000	500,000	
Issued and fully paid:					
At 1 January 2007			3,064,888	306,489	317,521
- Issue of shares for placement	(i)	0.1	218,460	21,846	21,506
Employee share option scheme					
- Shares issued	(b)		14,444	1,444	1,355
At 31 December 2007			3,297,792	329,779	340,382
Employee share option scheme					
- Shares issued	(b)		6,539	654	582
Repurchases and cancellation of shares	(d)		(56,185)	(5,618)	(4,949)
At 31 December 2008			3,248,146	324,815	336,015

Notes:

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

20 Share capital (continued)

(b) Pre-IPO Share Option Scheme

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

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

	Year ended 31 December	
	2008	2007
	'000	'000
Balance at beginning of the year	**43,767**	63,920
Lapsed	**(1,697)**	(5,709)
Exercised	**(6,539)**	(14,444)
Balance at end of the year	**35,531**	43,767

Out of the 35,530,850 outstanding options (2007: 43,767,000 options), 11,908,250 options (2007: 3,567,600 options) were vested and exercisable. During the year ended 31 December 2008, 6,539,400 options (2007: 14,444,000 options) have been exercised at exercise price of HK$5.625 per share, totalling HK$36,784,125 (equivalent to RMB32,679,000).

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

20 Share capital (continued)

(c) Share Option Scheme

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

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

Pursuant to the board resolution, options for a total of 15,350,000 ordinary shares of the Company under this scheme have been granted to independent non-executive directors, an executive director and selected employees on 4 February 2008. The exercise price is HK$16.24 per share. A total of 800,000 options are granted to the independent non-executive directors with 50% vested on 31 March 2008 and 50% vesting on 31 March 2009. 1,860,000 options are granted to an executive director with 33% vested on 31 March 2008 and remaining 67% vesting on 31 March 2009. A total of 12,690,000 options are granted to selected employees with 33% vested on 31 March 2008 and remaining 67% vesting on 31 March 2009. Options are conditional on the employee performance and become exercisable immediately after each vesting date. The exercise period expires on 8 June 2012.

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

	Year ended 31 December 2008 '000
Balance at beginning of the year	—
Granted	**15,350**
Forfeited or cancelled	**(15,350)**
Balance at end of the year	—

As at 31 December 2008, all 15,350,000 options were forfeited or cancelled, of which 9,718,500 ordinary shares to be vested on 31 March 2009 were cancelled by forfeiture as the vesting conditions are not satisfied.

The fair value of the options granted determined using the binomial model was HK$84,681,000 at the grant date. The significant inputs to the model were share price of HK$16.24 at the grant date, exercise price of HK$16.24, volatility of 56.14%, expected dividend yield of 2.16%, an expected option life of about 4 years and an annual risk-free interest rate ranging from 1.47% to 1.95%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical daily share prices of the Company over an 80-week period.

20 Share capital (continued)

(d) Repurchases and cancellation of shares

During the year, the Company repurchased its own shares of 56,184,500, in aggregate, on the Stock Exchange at a total price of HK$211,360,730 (equivalent to RMB187,000,000).

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

Pursuant to section 37 of the Cayman Islands Companies Law, an amount equivalent to the par value of the shares cancelled of RMB4,949,000 was transferred from the retained earnings to the capital redemption reserve.

21 Reserves

Group

	Merger reserve RMB'000 (note (a))	Share premium RMB'000	Share based compensation reserve RMB'000 (note (b))	Statutory reserve fund RMB'000 (note (c))	Capital redemption reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2008	**(185,787)**	**10,423,247**	**76,576**	**143,620**	**—**	**7,650,146**	**18,107,802**
Profit for the year attributable to the equity holders of the Company	**—**	**—**	**—**	**—**	**—**	**841,159**	**841,159**
Employee share option scheme							
– value of employee services	**—**	**—**	**25,733**	**—**	**—**	**—**	**25,733**
– proceeds from shares issued	**—**	**32,097**	**—**	**—**	**—**	**—**	**32,097**
Repurchases and cancellation of shares (Note 20(d))	**—**	**(182,051)**	**—**	**—**	**4,949**	**(4,949)**	**(182,051)**
Profit appropriations	**—**	**—**	**—**	**37,397**	**—**	**(37,397)**	**—**
Dividends	**—**	**—**	**—**	**—**	**—**	**(464,936)**	**(464,936)**
Balance at 31 December 2008	**(185,787)**	**10,273,293**	**102,309**	**181,017**	**4,949**	**7,984,023**	**18,359,804**
Representing:							
Proposed final dividend						**404,742**	**404,742**
Others						**7,579,281**	**17,955,062**
						7,984,023	**18,359,804**
Balance at 1 January 2007	(185,787)	6,569,648	38,019	—	—	4,788,968	11,210,848
Profit for the year attributable to the equity holders of the Company	—	—	—	—	—	4,091,782	4,091,782
Issue of shares for placement (Note 20(a))	—	3,775,339	—	—	—	—	3,775,339
Employee share option scheme							
– value of employee services	—	—	38,557	—	—	—	38,557
– proceeds from shares issued	—	78,260	—	—	—	—	78,260
Profit appropriations	—	—	—	143,620	—	(143,620)	—
Dividends	—	—	—	—	—	(1,086,984)	(1,086,984)
Balance at 31 December 2007	(185,787)	10,423,247	76,576	143,620	—	7,650,146	18,107,802
Representing:							
Proposed final dividend						494,088	494,088
Others						7,156,058	17,613,714
						7,650,146	18,107,802

21 Reserves (continued)

Company

	Share premium RMB'000	Share based compensation reserve RMB'000 (note (b))	Capital redemption reserve RMB'000 (note 20(d))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2008	**10,423,247**	**76,576**	**—**	**1,210,593**	**11,710,416**
Profit for the year	**—**	**—**	**—**	**(555,361)**	**(555,361)**
Employee share option scheme					
– value of employee services	**—**	**25,733**	**—**	**—**	**25,733**
– proceeds from shares issued	**32,097**	**—**	**—**	**—**	**32,097**
Repurchases and cancellation of shares (Note 20(d))	**(182,051)**	**—**	**4,949**	**(4,949)**	**(182,051)**
Dividends	**—**	**—**	**—**	**(464,936)**	**(464,936)**
Balance at 31 December 2008	**10,273,293**	**102,309**	**4,949**	**185,347**	**10,565,898**
Representing:					
Proposed final dividend				**404,742**	**404,742**
Others				**(219,395)**	**10,161,156**
				185,347	**10,565,898**
Balance at 1 January 2007	6,569,648	38,019	—	637,534	7,245,201
Profit for the year	—	—	—	1,660,043	1,660,043
Issue of shares for placement (Note 20(a))	3,775,339	—	—	—	3,775,339
Employee share option scheme					
– value of employee services	—	38,557	—	—	38,557
– proceeds from shares issued	78,260	—	—	—	78,260
Dividends	—	—	—	(1,086,984)	(1,086,984)
Balance at 31 December 2007	10,423,247	76,576	—	1,210,593	11,710,416
Representing:					
Proposed final dividend				494,088	494,088
Others				716,505	11,216,328
				1,210,593	11,710,416

21 Reserves (continued)

Notes:

(a) Merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiary purchased pursuant to the reorganisation and the nominal value of the shares of the Company issued in exchange effected prior to the listing of the Company's shares on the Stock Exchange in 2006.

(b) Share based compensation reserve represents value of employee services in respect of share options granted under the share option scheme (Note 20).

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

(d) The distributable reserve of the Company as at 31 December 2008 amounted to RMB10,565,898,000 (2007: RMB11,710,416,000).

22 Borrowings

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Group		
Borrowings included in non-current liabilities		
Bank borrowings - secured	**8,993,056**	6,169,708
Bank borrowings - unsecured	**800,000**	400,000
Senior notes - secured	**4,023,997**	4,283,410
	13,817,053	10,853,118
Less: Amounts due within one year	**(2,921,956)**	(469,081)
	10,895,097	10,384,037
Borrowings included in current liabilities		
Bank borrowings - secured	**564,037**	489,270
Bank borrowings - unsecured	**52,913**	294,100
Current portion of long-term borrowings	**2,921,956**	469,081
	3,538,906	1,252,451

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Company		
Borrowings included in non-current liabilities		
Senior notes - secured	**4,023,997**	4,283,410
Bank borrowings - secured	**—**	2,364,193
	4,023,997	6,647,603
Borrowings included in current liabilities		
Bank borrowings - secured	**2,222,156**	—
Bank borrowings - unsecured	**52,913**	234,100
	2,275,069	234,100

As at 31 December 2008, the Group's total secured bank borrowings of RMB9,557,093,000 (2007: RMB6,658,978,000) were secured by its assets under construction and buildings (Note 6), investment properties (Note 7), land use rights (Note 8), properties under development (Note 11), completed properties held for sale (Note 12) and restricted cash (Note 19).

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

22 Borrowings (continued)

(b) On 13 August 2007, the Group entered into a bank facility agreement with a syndicate of 20 international and local banks. Pursuant to the agreement, the Group obtained a 3-year extendible syndicated loan facility amounting to US$328,000,000 at a floating rate of interest due on 13 August 2010. Pursuant to a supplemental agreement dated 27 August 2008 and correspondence from lenders on 24 February 2009, certain definitions and terms including interest margins have been amended.

On 8 April 2009, pursuant to the prepayment terms in the facility letter, the Group notified the lenders in writing of its intention to early repay 70% of the outstanding loans amounting to US$229,600,000 (equivalent to RMB1,569,224,000) within 14 days after receiving consent from the majority of the lenders on the prepayment arrangements and the remaining 30% of US$98,400,000 (equivalent to RMB672,525,000) on or before 31 July 2009.

The repayment will be financed from the proceeds from private placing and subscription of the Company's shares completed on 9 April 2009 (Note 39) and internal cash resources (Note 3(c)).

22 Borrowings (continued)

(c) On 26 February 2008, the Company entered into an agreement with a bank for an issuance of senior notes ("BNP notes") amounting to US$300,000,000 which are due on 18 September 2008. The BNP notes have been repaid on 17 September 2008.

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

	6 months or less RMB'000	6 - 12 months RMB'000	Over 5 years RMB'000	Total RMB'000
Group				
Borrowings included in non-current liabilities:				
At 31 December 2008	**6,704,159**	**1,848,100**	**2,342,838**	**10,895,097**
At 31 December 2007	6,412,481	1,472,900	2,498,656	10,384,037
Borrowings included in current liabilities:				
At 31 December 2008	**3,365,006**	**173,900**	**—**	**3,538,906**
At 31 December 2007	1,123,651	128,800	—	1,252,451
Company				
Borrowings included in non-current liabilities:				
At 31 December 2008	**1,681,159**	**—**	**2,342,838**	**4,023,997**
At 31 December 2007	4,148,947	—	2,498,656	6,647,603
Borrowings included in current liabilities:				
At 31 December 2008	**2,275,069**	**—**	**—**	**2,275,069**
At 31 December 2007	234,100	—	—	234,100

22 Borrowings (continued)

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Group		
Bank borrowings:		
Between 1 and 2 years	**3,044,600**	707,422
Between 2 and 5 years	**2,943,500**	4,635,277
Over 5 years	**883,000**	757,928
Senior notes:		
Between 2 and 5 years	**1,681,159**	1,784,754
Over 5 years	**2,342,838**	2,498,656
	10,895,097	10,384,037
Company		
Bank borrowings:		
Between 2 and 5 years	**—**	2,364,193
Senior notes:		
Between 2 and 5 years	**1,681,159**	1,784,754
Over 5 years	**2,342,838**	2,498,656
	4,023,997	6,647,603

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

	As at 31 December	
	2008	2007
Group		
Bank borrowings - RMB	**5.68%**	7.33%
Bank borrowings - US dollar	**3.90%**	5.99%
Bank borrowings - HK dollar	**3.24%**	6.03%
Senior notes - US dollar	**7.55%**	7.92%
Company		
Bank borrowings - US dollar	**3.90%**	5.98%
Bank borrowings - HK dollar	**3.24%**	6.03%
Senior notes - US dollar	**7.55%**	7.92%

22 Borrowings (continued)

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

	Carrying amounts RMB'000	Fair values RMB'000
Group		
At 31 December 2008	**10,895,097**	**10,818,610**
At 31 December 2007	10,384,037	10,376,902
Company		
At 31 December 2008	**4,023,997**	**4,023,997**
At 31 December 2007	6,647,603	6,647,603

The fair values are based on cash flows discounted using rates based on weighted average borrowing rates of 5.40% as at 31 December 2008 (2007: 6.93%).

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

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

	As at 31 December	
	2008 RMB'000	2007 RMB'000
Group		
RMB	**8,134,937**	4,477,794
HK dollar	**52,913**	234,100
US dollar	**6,246,153**	6,924,594
	14,434,003	11,636,488
Company		
HK dollar	**52,913**	234,100
US dollar	**6,246,153**	6,647,603
	6,299,066	6,881,703

23 Deferred income tax - Group

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	**342,875**	361,823
– to be recovered within 12 months	**94,972**	79,747
	437,847	441,570
Deferred income tax liabilities		
– to be recovered after more than 12 months	**1,486,305**	1,610,065
– to be recovered within 12 months	**118,796**	29,379
	1,605,101	1,639,444
Net deferred income tax liabilities	**1,167,254**	1,197,874

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Beginning of the year	**1,197,874**	1,093,077
Acquisition of subsidiaries	**—**	306,936
Credited to the consolidated income statement (Note 29)	**(30,620)**	(202,139)
End of the year	**1,167,254**	1,197,874

23 Deferred income tax - Group (continued)

Movement in deferred income tax assets and liabilities for the year ended 31 December 2008, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Temporary differences on recognition of sales and related costs RMB'000	Temporary differences on recognition of expenses RMB'000	Total RMB'000
At 1 January 2007	220,512	75,268	295,780
Credited/(charged) to the consolidated income statement	256,545	(26,436)	230,109
At 31 December 2007	477,057	48,832	525,889
Credited to the consolidated income statement	77,020	10,123	87,143
At 31 December 2008	**554,077**	**58,955**	**613,032**

Deferred income tax liabilities

	Fair value gains on investment properties RMB'000	Fair value adjustments on assets and liabilities upon acquisition RMB'000	Withholding tax on the retained earnings of certain subsidiaries RMB'000	Total RMB'000
At 1 January 2007	655,074	733,783	—	1,388,857
Acquisition of subsidiaries	—	306,936	—	306,936
Charged/(credited) to the consolidated income statement	49,504	(21,534)	—	27,970
At 31 December 2007	704,578	1,019,185	—	1,723,763
(Credited)/charged to the consolidated income statement	(30,687)	(13,063)	100,273	56,523
At 31 December 2008	**673,891**	**1,006,122**	**100,273**	**1,780,286**

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

23 Deferred income tax - Group (continued)

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB82,071,000 (2007: RMB41,596,000) in respect of accumulated losses amounting to RMB328,284,000 (2007: RMB166,387,000). Accumulated losses amounting to RMB55,185,000, RMB22,758,000, RMB51,634,000, RMB6,511,000 and RMB192,196,000 as at 31 December 2008 will expire in 2011, 2012, 2013, 2014 and 2015 respectively.

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

24 Trade and other payables

Group

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Trade payables (note (a))	**5,836,441**	3,355,038
Accrued expenses	**109,039**	139,951
Other taxes payable	**176,888**	202,090
Other payables (note (b))	**624,758**	153,848
	6,747,126	3,850,927

Company

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Other payables and accruals	**37,831**	48,059

24 Trade and other payables (continued)

Notes:

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

	As at 31 December	
	2008 RMB'000	2007 RMB'000
Within 90 days	**5,107,382**	3,036,524
Over 90 days and within 180 days	**729,059**	318,514
	5,836,441	3,355,038

(b) Other payables comprise:

	As at 31 December	
	2008 RMB'000	2007 RMB'000
Deposits and advances from constructors	**352,701**	20,362
Excess proceeds received from customers	**92,327**	40,332
Rental deposits from tenants and hotel customers	**66,189**	35,270
Decoration fee payables	**35,110**	—
Acquisition consideration payable	**32,502**	—
Fees collected from customers on behalf of government agencies	**11,157**	7,109
Welfare payable	**4,845**	6,125
Decoration fee collected from customers on behalf of decorators	**1,976**	20,985
Miscellaneous	**27,951**	23,665
	624,758	153,848

25 Other gains

	Year ended 31 December	
	2008 RMB'000	2007 RMB'000
Net exchange gain	**414,658**	229,996
Negative goodwill arising from acquisition of additional interest in a subsidiary/subsidiaries (Note 37 (a))	**6,841**	523,060
Government grants received	**4,337**	1,000
Trademark income	**1,340**	1,459
Gain on disposal of property, plant and equipment	**875**	386
Gain on partial disposal of a subsidiary (note (a))	**—**	751,530
Income tax refund on reinvestment (note (b))	**—**	85,432
Miscellaneous	**14,067**	21,191
	442,118	1,614,054

Notes:

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

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

26 Expenses by nature

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Staff costs - including directors' emoluments (note (a))	**436,037**	341,705
Auditor's remuneration	**3,000**	3,100
Depreciation (Note 6)	**224,222**	158,432
Amortisation of land use rights (Note 8)	**35,390**	32,123
Provision for impairment of receivables	**2,314**	—
Write-down of completed properties held for sale to net realisable value (Note 12)	**87,381**	24,913
Advertising, promotion and commission costs	**271,241**	176,961
Cost of properties sold	**3,191,159**	4,527,431
Business taxes and other levies on sales of properties (note (b))	**317,996**	438,291
Impairment of goodwill (Note 10)	**9,198**	63,702
Charitable donations	**42,649**	44,427
Direct outgoings arising from investment properties that generate rental income	**4,475**	10,126
Operating lease rental expenses	**49,260**	36,351
Hotel operating expenses	**423,009**	338,590
Office expenses	**174,324**	72,559
Other expenses	**115,233**	114,293
Total cost of sales, selling and marketing costs, administrative expenses and other operating expenses	**5,386,888**	6,383,004

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

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Wages and salaries	**333,737**	236,359
Pension costs - statutory pension (Note 33)	**27,347**	22,462
Employee share option scheme	**25,733**	38,557
Other allowances and benefits	**49,220**	44,327
	436,037	341,705

(b) Business tax

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

27 Finance income and costs

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Interest on bank borrowings		
– wholly repayable within five years	**559,377**	326,856
– not wholly repayable within five years	**43,866**	28,549
Interest on senior notes		
– wholly repayable within five years	**112,854**	154,531
– not wholly repayable within five years	**195,762**	209,630
Interest on BNP notes		
– wholly repayable within five years	**160,938**	—
	1,072,797	719,566
Less: Interest capitalised	**(695,162)**	(449,792)
Finance costs	**377,635**	269,774
Finance income	**(28,005)**	(102,543)
Finance costs – Net	**349,630**	167,231

28 Emoluments of directors and five highest paid individuals

(a) Directors' emoluments

The remuneration of each of the directors of the Company for the year ended 31 December 2008 is set out as follows:

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefit contributions RMB'000	Employee Share option scheme RMB'000	Total RMB'000
Executive directors						
Mr. Hui Wing Mau	—	5,291	—	11	—	5,302
Mr. Hui Sai Tan, Jason	—	2,646	213	11	770	3,640
Ms. Yao Li	—	2,010	199	11	770	2,990
Mr. Ip Wai Shing	—	1,784	186	11	746	2,727
Mr. Tang Ping Fai	—	1,528	159	11	770	2,468
Mr. Tung Chi Shing	—	1,700	170	11	2,999	4,880
Independent non-executive directors						
Ms. Kan Lai Kuen, Alice	212	—	—	—	322	534
Mr. Lu Hong Bing	212	—	—	—	322	534
Mr. Gu yunchang	212	—	—	—	322	534
Mr. Lam Ching Kam	212	—	—	—	322	534
	848	14,959	927	66	7,343	24,143

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

(a) Directors' emoluments (continued)

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

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

No directors of the Company waived or agreed to waive any remuneration for the years ended 31 December 2008 and 2007.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2008 and 2007 are all directors. The aggregate amounts of emoluments of the five highest paid individuals are set out below:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Fees	**—**	9,499
Salaries and allowances	**13,431**	3,712
Bonuses	**768**	3,191
Retirement scheme contributions	**55**	60
Employee share option scheme	**5,285**	7,308
	19,539	23,770

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
RMB2,000,001 - RMB2,500,000	**1**	—
RMB2,500,001 - RMB3,000,000	**2**	—
RMB3,500,001 - RMB4,000,000	**1**	1
RMB4,000,001 - RMB4,500,000	**—**	2
RMB4,500,001 - RMB5,000,000	**1**	—
RMB5,000,001 - RMB5,500,000	**1**	1
RMB6,000,001 - RMB6,500,000	**—**	1

(c) No emolument was paid or is payable by the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office apart from those disclosed above for the years ended 31 December 2008 and 2007.

29 Income tax expense

	Year ended 31 December 2008 RMB'000	2007 RMB'000
Current income tax		
– PRC enterprise income tax	**435,311**	882,079
– PRC land appreciation tax	**520,535**	754,317
	955,846	1,636,396
Deferred income tax (Note 23)		
– PRC enterprise income tax	**(130,893)**	(202,139)
– PRC withholding income tax	**100,273**	—
	(30,620)	(202,139)
	925,226	1,434,257

Share of income tax credit of associated companies of RMB3,467,000 (2007: income tax charge of RMB124,750,000) (Note 14) is included in the consolidated income statement under share of results of associated companies.

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

	Year ended 31 December 2008 RMB'000	2007 RMB'000
Profit before income tax	**1,785,494**	5,608,042
Less: Share of results of associated companies and jointly controlled entities	**(6,366)**	(113,045)
Land appreciation tax	**(520,535)**	(754,317)
	1,258,593	4,740,680
Calculated at PRC enterprise income tax rate of 25% (2007: 33%)	**314,648**	1,564,424
Tax saving due to preferential rate	**—**	(20,953)
Effect of different tax rates in other countries	**(929)**	(1,162)
Expenses not deductible for income tax purposes (note (a))	**26,067**	48,467
Income not subject to tax (note (b))	**(74,133)**	(184,162)
Tax losses not recognised	**40,475**	10,178
Gain on partial disposal of a subsidiary not subject to tax	**—**	(248,005)
Negative goodwill arising from acquisition of subsidiaries not subject to tax	**(1,710)**	(172,610)
Impact of tax rate change on deferred income tax	**—**	(316,237)
PRC enterprise income tax charge	**304,418**	679,940
PRC land appreciation tax	**520,535**	754,317
PRC withholding income tax	**100,273**	—
	925,226	1,434,257

29 Income tax expense (continued)

Notes:

(a) For the year ended 31 December 2008, expenses not deductible for income tax purposes mainly resulted from employee share options of RMB25,733,000 and expenses of RMB70,038,000 incurred by the Company and its subsidiaries established in the British Virgin Islands which are not deductable for tax purposes.

For the year ended 31 December 2007, expenses not deductible for income tax purposes mainly resulted from the impairment of goodwill of RMB63,702,000, employee share options of RMB38,557,000 and expenses of RMB 44,610,000 incurred by the Company and its subsidiaries established in the British Virgin Islands which are not deductible for tax purposes.

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

Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group has no assessable profit in Hong Kong for the year ended 31 December 2008 (2007: Nil).

PRC enterprise income tax

PRC enterprise income tax is provided for at 25% (2007: 33%) of the profits for the PRC statutory financial reporting purpose, adjusted for those items, which are not assessable or deductible for the PRC enterprise income tax purposes.

The new Enterprise Income Tax Law has been enacted to reduce the PRC enterprise income tax rate from 33% to 25% with effect from 1 January 2008.

PRC land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership. Upon acquisition of subsidiaries which are engaged in property development, an accrual for land appreciation tax is made based on the fair value of the properties being developed by the subsidiaries for sale before arriving at the goodwill/negative goodwill on the acquisition.

PRC withholding income tax

According to the new Enterprise Income Tax Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate will be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangements between the PRC and Hong Kong.

30 Dividends

	Year ended 31 December 2008 RMB'000	2007 RMB'000
Interim dividend paid of HK15 cents per ordinary share (note(a))	—	480,829
Proposed final dividend of HK13 cents (2007: HK16 cents) per ordinary share (note (b))	**404,742**	494,088
	404,742	974,917

Notes:

(a) The directors did not recommend the payment of any interim dividend for the six months ended 30 June 2008. An interim dividend in the respect of the six months ended 30 June 2007 of HK15 cents per ordinary share, amounting to HK$494,336,000 (equivalent to RMB480,829,000) was declared at the Company's board meeting held on 16 August 2007.

(b) At a meeting held on 27 April 2009, the directors proposed a final dividend of HK13 cents per ordinary share. The amount of proposed dividend is calculated by number of shares issued as at 31 December 2008 plus 282,229,000 shares from placement made in April 2009. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009, upon approval by the shareholders at the forthcoming annual general meeting of the Company. A final dividend for the year ended 31 December 2007 of HK16 cents per ordinary share, amounting to approximately HK$528,397,000 (equivalent to RMB494,088,000) was approved at the annual general meeting of the Company held on 23 June 2008.

31 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December 2008	2007
Profit attributable to the equity holders of the Company (RMB'000)	**841,159**	4,091,782
Weighted average number of ordinary shares in issue (thousands)	**3,292,732**	3,212,666
Basic earnings per share (RMB)	**0.256**	1.274

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under share option schemes (Note 20) assuming they were exercised.

	Year ended 31 December 2008	2007
Profit attributable to the equity holders of the Company (RMB'000)	**841,159**	4,091,782
Weighted average number of ordinary shares in issue (thousands)	**3,292,732**	3,212,666
Adjustment for share options granted under share option schemes (thousands)	**16,048**	30,440
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**3,308,780**	3,243,106
Diluted earnings per share (RMB)	**0.254**	1.262

32 Notes to the consolidated cash flow statement

Net cash generated from/(used in) operations:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Profit for the year	**860,268**	4,173,785
Adjustments for:		
Income tax expense	**925,226**	1,434,257
Interest income	**(28,005)**	(102,543)
Finance costs	**377,635**	269,774
Provision for impairment of receivables	**2,314**	—
Write-down of completed properties held for sale to net realisable value	**87,381**	24,913
Depreciation	**224,222**	158,432
Gain on disposal of property, plant and equipment	**(875)**	(386)
Share of results of associated companies	**3,132**	(112,870)
Share of results of jointly controlled entities	**(9,498)**	(175)
Amortisation of land use rights	**35,390**	32,123
Fair value losses/(gains) on investment properties	**122,749**	(1,155,253)
Staff costs - employee share option scheme	**25,733**	38,557
Gain on partial disposal of a subsidiary	**—**	(751,530)
Negative goodwill arising from acquisition of additional interest in a subsidiary/subsidiaries	**(6,841)**	(523,060)
Impairment of goodwill	**9,198**	63,702
Net exchange gain	**(414,658)**	(229,996)
	2,213,371	3,319,730
Changes in working capital:		
Properties under development and completed properties held for sale	**(1,700,872)**	(229,933)
Land use rights	**(261,295)**	(4,465,960)
Restricted cash	**222,592**	(336,052)
Trade and other receivables and prepayments	**(518,352)**	(470,104)
Trade and other payables	**1,159,272**	77,922
Advanced proceeds received from customers	**1,034,710**	(565,330)
Amounts due to related companies	**(1,814)**	—
Net cash generated from/(used in) operations	**2,147,612**	(2,669,727)

33 Pensions - defined contribution plans

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

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

Details of the retirement scheme contributions for the employees, which have been dealt with in the consolidated income statement of the Group for the year ended 31 December 2008, are as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Gross scheme contributions	**27,347**	22,462

34 Principal subsidiaries, associated companies and jointly controlled entities

Particulars of the principal subsidiaries, associated companies and jointly controlled entities of the Group as at 31 December 2008 are as follows:

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2008	Principal activities
Principal subsidiaries — established and operation conducted in the PRC					
上海世茂房地產有限公司 (Shanghai Shimao Real Estate Co., Ltd.)	15 March 2000	Foreign investment enterprise	Registered capital US$75,000,000	100%	Property development
上海世茂國際廣場有限責任公司 (Shanghai Shimao International Plaza Co., Ltd.)	15 September 1994	Foreign investment enterprise	Registered capital RMB1,600,000,000	100%	Property development
上海世茂建設有限公司 (Shanghai Shimao Jianse Co., Ltd.)	16 March 2001	Foreign investment enterprise	Registered capital RMB540,000,000	100%	Investment holding
上海世茂莊園置業有限公司 (Shanghai Shimao Manor Real Estate Co., Ltd.)	19 June 2002	Foreign investment enterprise	Registered capital US$18,400,000	100%	Property development
上海世茂北外灘開發建設有限公司 (Shanghai Shimao North Bund Co., Ltd.)	17 May 2002	Foreign investment enterprise	Registered capital HK$650,000,000	100%	Property development
北京世茂投資發展有限公司 (Beijing Shimao Investment and Development Co., Ltd.)	26 December 2000	Foreign investment enterprise	Registered capital RMB755,780,000	100%	Property development
哈爾濱世茂濱江新城開發建設有限公司 (Harbin Shimao Riviera New City Development and Construction Co., Ltd.)	24 March 2004	Foreign investment enterprise	Registered capital HK$548,000,000	100%	Property development
常熟世茂房地產開發有限公司 (Changshu Shimao Real Estate Development Co., Ltd.)	24 December 2004	Foreign investment enterprise	Registered capital HK$440,000,000	100%	Property development
昆山世茂蝶湖灣開發建設有限公司 (Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd.)	10 November 2003	Foreign investment enterprise	Registered capital RMB412,410,000	100%	Property development

34 Principal subsidiaries, associated companies and jointly controlled entities (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2008	Principal activities
Principal subsidiaries — established and operation conducted in the PRC (continued)					
武漢世茂錦繡長江房地產開發有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.)	6 June 2005	Foreign investment enterprise	Registered capital US$114,269,000	70.01%	Property development
昆山世茂房地產開發有限公司 (Kunshan Shimao Real Estate Co., Ltd.)	24 December 2003	Domestic enterprise	Registered capital RMB547,668,147	100%	Property development
嘉興世茂新城房地產開發有限公司 (Jiaxing Shimao New City Real Estate Development Co., Ltd.)	28 September 2006	Foreign investment enterprise	Registered capital US$62,800,000	100%	Property development
上海世茂新體驗置業有限公司 (Shanghai Shimao Wonderland Real Estate Co., Ltd.)	6 March 2006	Foreign investment enterprise	Registered capital RMB391,092,834	100%	Property development
紹興世茂新城房地產開發有限公司 (Shaoxing Shimao New City Real Estate Development Co., Ltd)	11 July 2006	Foreign investment enterprise	Registered capital US$52,350,000	100%	Property development
紹興世茂置業有限公司 (Shaoxing Shimao Real Estate Co., Ltd)	11 July 2006	Foreign investment enterprise	Registered capital US$79,030,000	100%	Property development
蕪湖世茂房地產開發有限公司 (Wuhu Shimao Real Estate Development Co., Ltd.)	8 September 2006	Foreign investment enterprise	Registered capital US$56,500,000	100%	Property development
煙台世茂置業有限公司 (Yantai Shimao Real Estate Co., Ltd.)	6 September 2006	Foreign investment enterprise	Registered capital US$48,500,000	100%	Property development
常州世茂房地產有限公司 (Changzhou Shimao Real Estate Co., Ltd.)	27 November 2006	Foreign investment enterprise	Registered capital US$221,500,000	100%	Property development
瀋陽世茂新發展置業有限公司 (Shenyang Shimao New Development Co., Ltd.)	5 December 2006	Foreign investment enterprise	Registered capital US$107,100,000	100%	Property development

34 Principal subsidiaries, associated companies and jointly controlled entities (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2008	Principal activities
Principal subsidiaries — established and operation conducted in the PRC (continued)					
杭州世茂置業有限公司 (Hangzhou Shimao Real Estate Co., Ltd.)	13 December 2006	Foreign investment enterprise	Registered capital US$111,900,000	100%	Property development
徐州世茂新城房地產開發有限公司 (Xuzhou Shimao New City Real Estate Development Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital US$75,980,000	100%	Property development
徐州世茂置業有限公司 (Xuzhou Shimao Property Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital RMB201,412,600	100%	Property development
徐州世茂新紀元房地產開發有限公司 (Xuzhou Shimao New Era Real Estate Development Co., Ltd.)	22 June 2007	Foreign investment enterprise	Registered capital RMB50,000,000	100%	Property development
福州世茂置業有限公司 (Fuzhou Shimao Property Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB430,000,000	100%	Property development
福州世茂新城房地產開發有限公司 (Fuzhou Shimao New City Real Estate Development Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB880,000,000	100%	Property development
蕪湖世茂新發展置業有限公司 (Wuhu Shimao New Development Property Co., Ltd.	16 May 2007	Foreign investment enterprise	Registered capital RMB50,000,000	100%	Property development
蕪湖世茂新世紀置業有限公司 (Wuhu Shimao New Century Property Co., Ltd.)enterprise	26 September 2007	Foreign investment enterprise	Registered capital RMB35,000,000	100%	Property development
瀋陽世茂新世紀房地產開發有限公司 (Shenyang Shimao New Century Real Estate Development Co., Ltd.)	24 May 2007	Domestic enterprise	Registered capital RMB580,058,500	100%	Property development
瀋陽世茂新紀元置業有限公司 (Shenyang Shimao New Era Property Co., Ltd.)	24 May 2007	Foreign investment enterprise	Registered capital HK$257,000,000	100%	Property development
大連加港龍河發展有限公司 (Dalian Cakong Dragon River Development Co., Ltd)	9 June 2006	Foreign investment enterprise	Registered capital US$10,000,000	85%	Property development

34 Principal subsidiaries, associated companies and jointly controlled entities (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2008	Principal activities
Principal subsidiaries — established and operation conducted in the PRC (continued)					
蘇州世茂投資發展有限公司 (Suzhou Shimao Investment & Development Co., Ltd.)	2 March 2007	Domestic enterprise	Registered capital RMB226,795,630	100%	Property development
蘇州世茂置業有限公司 (Suzhou Shimao Property Co., Ltd.)	26 January 2007	Foreign investment enterprise	Registered capital US$178,000,000	100%	Property development
紹興世茂新紀元置業有限公司 (Shaoxing Shimao New Era Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB10,020,127	100%	Property development
紹興世茂新置業發展有限公司 (Shaoxing Shimao New Property Development Co., Ltd.)	13 July 2007	Foreign investment enterprise	Registered capital US$14,500,000	100%	Property development
紹興世茂新世紀置業有限公司 (Shaoxing Shimao New Century Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB177,457,740	100%	Property development
嘉興世茂新世紀置業有限公司 (Jiaxing Shimao New Century Property Co., Ltd.)	6 July 2007	Foreign investment enterprise	Registered capital RMB5,000,000	100%	Property development
牡丹江世茂置業有限公司 (Mudanjiang Shimao Property Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US$16,000,000	100%	Property development
牡丹江世茂新城房地產開發有限公司 (Mudanjiang Shimao New City Real Estate Development Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US$29,980,000	100%	Property development
常熟世茂新發展置業有限公司 (Changshu Shimao New Development Property Co., Ltd.)	24 August 2007	Domestic enterprise	Registered capital RMB252,174,000	100%	Property development

34 Principal subsidiaries, associated companies and jointly controlled entities (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2008	Principal activities
Principal subsidiaries — established and operation conducted in the PRC (continued)					
昆山世茂新發展置業有限公司 (Kunshan Shimao New Development Property Co., Ltd.)	12 September 2007	Foreign investment enterprise	Registered capital US$49,980,000	100%	Property development
成都世盈投資管理咨詢有限公司 (Chengdu Shiying Investment Management Co., Ltd.)	20 September 2007	Foreign investment enterprise	Registered capital US$29,980,000	100%	Property development
常州世茂新城房地產開發有限公司 (Changzhou Shimao New City Real Estate Development Co., Ltd.)	12 February 2007	Domestic enterprise	Registered capital RMB222,264,005	100%	Property development
上海世源建材貿易有限公司 (Shanghai Shine Construction Product Co., Ltd.)	22 January 2007	Foreign investment enterprise	Registered capital HK$5,000,000	100%	Trading of construction materials
上海世盈投資管理有限公司 (Shanghai Shiying Investment Management Co., Ltd.)	21 August 2007	Foreign investment enterprise	Registered capital RMB200,000,000	100%	Property development
廈門信誠建築裝潢有限公司 (Xiamen Xincheng Building Decoration Co., Ltd.)	6 March 2007	Foreign investment enterprise	Registered capital RMB5,000,000	100%	Trading of construction materials
北京財富時代置業有限公司 (Beijing Fortune Times Property Co., Ltd.)	18 September 2001	Foreign investment enterprise	Registered capital RMB1,010,000,000	100%	Property development
牡丹江睿智營銷企劃有限公司 (Mudanjiang Ruizhi Marketing Planning Co., Ltd.)	4 December 2007	Foreign investment enterprise	Registered capital RMB1,000,000	100%	Property development
牡丹江世拓建材貿易有限公司 (Mudanjiang Shituo Construction Product Co., Ltd.)	3 April 2008	Foreign investment enterprise	Registered capital RMB1,000,000	100%	Trading of construction materials

34 Principal subsidiaries, associated companies and jointly controlled entities (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2008	Principal activities
Principal subsidiaries — established and operation conducted in the PRC (continued)					
咸陽世茂房地產開發有限公司 (Xianyang Shimao Real Estate Development Co., Ltd.)	29 April 2004	Foreign investment enterprise	Registered capital HK$30,000,000	60%	Property development
上海碧橙房地產有限公司 (Shanghai Bicheng Real Estate Co., Ltd.)	28 September 2003	Foreign investment enterprise	Registered capital RMB180,000,000	100%	Property development
Principal subsidiaries — incorporated and operation conducted in the British Virgin Islands					
Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of US$1	100% (note (a))	Investment holding
Advance Assets Holdings Limited	22 June 2001	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Easy Reach Group Limited	13 December 2006	Limited liability company	1 ordinary share of US$1	100%	Investment holding
East Light Group Limited	12 May 2006	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Highsharp International Limited	23 February 2007	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Keen View Limited	10 May 2006	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Magic Dynasty Investments Limited	15 November 2006	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Peak Castle Assets Limited	2 July 2002	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Peak Gain International Limited	13 December 2006	Limited liability company	1 ordinary share of US$1	100%	Investment holding

34 Principal subsidiaries, associated companies and jointly controlled entities (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2008	Principal activities
Principal subsidiaries — incorporated and operation conducted in the British Virgin Islands (continued)					
Precise Choice Investments Limited	18 October 2001	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Prime Master Holdings Limited	2 July 2002	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Shimao Management (Overseas) Limited	18 December 2002	Limited liability company	1 ordinary share of US$1	100%	Management services
Significant Asset Group Limited	2 July 2002	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Vicking International Ltd.	19 January 1994	Limited liability company	50,000 ordinary shares of US$1	100%	Investment holding
Wickfair Investments Limited	8 October 2004	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Year Grant Investments Limited	3 September 2001	Limited liability company	1 ordinary share of US$1	100%	Investment holding
Principal subsidiaries — incorporated and operation conducted in Hong Kong					
Brilliant Architectural and Construction Professional Consultancy Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK$1	100%	Consultancy services
Fine Tune Investments Limited	5 June 2006	Limited liability company	1 ordinary share of HK$1	100%	Holding of trademarks
Modern Professional Architectural Design Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK$1	100%	Design services
Shimao Holdings Company Limited	3 February 1994	Limited liability company	100 million ordinary shares of HK$1	100%	Investment holding
Topwise Limited	29 March 2005	Limited liability company	1 ordinary share of HK$1	100%	Management services

34 Principal subsidiaries, associated companies and jointly controlled entities (continued)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2008	Principal activities
Associated companies — established and operation conducted in the PRC					
福建世茂投資發展有限公司 (Fuzhou Project JV)	14 May 2003	Foreign investment enterprise	Registered capital RMB200,000,000	50%	Property development
南京世茂房地產開發有限公司 (Nanjing Project JV)	23 July 2004	Foreign investment enterprise	Registered capital RMB328,000,000	50%	Property development
Jointly controlled entities — established and operation conducted in the PRC					
上海世茂第一太平物業有限公司 (Shimao First Pacific)	16 September 2005	Foreign investment enterprise	RMB3,000,000	83% (note(b))	Property management
杭州世茂世盈房地產開發有限公司 (Hangzhou Shimao Shiying Property Development Co., Ltd)	24 January 2008	Foreign investment enterprise	US$49,980,000	50%	Property management
海墅房地產開發（杭州）有限公司 (Hai Shu Investment Management (Hangzhou) Co., Ltd.)	25 September 2007	Foreign investment enterprise	US$99,980,000	50%	Property management
Jointly controlled entities — established and operation conducted in Hong Kong					
Fast Right Investments Limited	7 May 2007	Limited liability company	2 ordinary shares of HK$1	50%	Investment holding
Kingtron Enterprises Limited	14 June 2007	Limited liability company	2 ordinary shares of HK$1	50%	Investment holding

Note:

(a) Directly held by the Company.

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

35 Financial guarantees

The Group had the following financial guarantees as at 31 December 2008.

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers	**2,468,157**	2,132,064

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

36 Commitments

(a) Commitments for capital and property development expenditure

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Authorised but not contracted for	**—**	—
Contracted but not provided for		
– Property, plant and equipment	**1,184,667**	268,466
– Land use rights	**6,133,370**	5,521,734
– Properties being developed by the Group for sale	**3,037,239**	2,091,617
– Advances to local government authorities for land resettlement and site formation	**3,035,900**	3,630,000
	13,391,176	11,511,817

36 Commitments (continued)

(b) Operating lease commitments

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Within one year	**31,522**	25,451
Between two to five years	**35,253**	63,346
After fiver years	**2,145**	—
	68,920	88,797

(c) Operating lease rentals receivable

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

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Within one year	**185,417**	14,761
Between two to five years	**364,439**	32,755
After five years	**410,756**	21,060
	960,612	68,576

37 Acquisition of minority interests

(a) On 30 October 2008, the Group acquired additional interests of 10% in one of its subsidiaries, Shanghai Bicheng Real Estate Co., Ltd., from a third party, at a total cash consideration of approximately RMB4,500,000. The acquisition resulted in a negative goodwill of RMB6,841,000 (Note 25). As at 31 December 2008, RMB1,998,000 has been paid and remaining RMB2,502,000 has been included in other payables.

(b) On 29 December 2008, the Group acquired additional interests of 49% of one of its subsidiaries, Shanghai Xincheng Real Estate Co., Ltd., from a third party, at a total cash consideration of RMB30,000,000. The acquisition resulted in a goodwill of RMB17,597,000 (Note 10). As at 31 December 2008, the consideration has not been paid and included in other payables.

38 Related party transactions

(a) Other than those disclosed elsewhere in the financial statements, the Group had entered into the following major related party transactions during the year ended 31 December 2008.

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Trademark fee earned from related companies (note (i))	**1,340**	1,459
Commission and consulting income earned from a related company (note (ii))	**795**	—
Operating lease rental expense charged by a related company (note (iii))	**4,347**	2,078
Property management fee and reimbursement of staff costs charged by a jointly controlled entity (note (iv))	**7,980**	3,860

38 Related party transactions (continued)

Notes:

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

(ii) During the year, the Group provided marketing and consulting services to Fuzhou Project JV and earned commission and consulting income of RMB795,000.

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

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

(v) The Group had provided Shanghai Mason with the right to operate one of its clubhouses at a fee calculated based upon certain percentage of net profit of the clubhouse when it has achieved an accumulated net profit. During the year ended 31 December 2008, the clubhouse was loss making and therefore no fee had been charged (2007: Nil). Certain directors of the Company are also directors of Shanghai Mason.

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

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

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

The Company has been informed by Shanghai Shimao that on 3 September 2008 Shanghai Shimao received the approval from China Securities Regulatory Commission for the above transaction and Subscription.

The aforementioned transaction and Subscription has not been completed as at 31 December 2008 which is subject to the injection of a property into Shanghai Shimao.

(b) Key management compensation

	Year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Fees	**—**	9,499
Emoluments		
– Salaries and other short-term employee benefits	**23,938**	15,933
– Retirement scheme contributions	**168**	165
– Employee share option scheme	**7,938**	11,710
	32,044	37,307

39 Subsequent events

On 9 April 2009, the Company completed a placing and subscription of 282,229,000 new shares at a price of HK$6.95 per share. The proceeds from the placing and subscription of new shares amounted to approximately HK$1,937,777,000 and will be applied to repay the Group's syndicated loan (see Note 22).

40 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Company's board of directors on 27 April 2009.