SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司

(Stock Code: 1207)

ANNUAL REPORT 2008

Contents

Introduction of the Group

SRE Group Limited (“the Company”) and its subsidiaries (“the Group”) are an integrated real estate developer specializing in property development business. The shares of the Company have been listed on the Stock Exchange of Hong Kong Limited (the “SEHK”) since 10 December 1999.

Geographically, Shanghai is the base for the Group’s real estate development business which will gradually and continue to be extending into capitals of various provinces and regional hubs with strong economic development potentials. While we are mainly a developer for medium-to-high-end residential properties, we have been gradually building more commercial properties such as office buildings, hotels and shopping malls, aiming at becoming a fully integrated trans-regional real estate developer.

Properties developed by he Group under the brand names of “Oasis Garden”, “Rich Gate”, “Skyway” and “Albany” enjoy a good reputation in both onshore and offshore markets including Shanghai, Shenyang and Hong Kong.

Summary of Results

(Prepared according to accounting principles generally accepted in Hong Kong)

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Turnover, net	**3,740**	3,350	2,621	1,309	601
Gross Profit	**895**	637	1,147	460	137
Profit before Taxation	**1,677**	1,670	1,103	504	116
Taxation	**(893)**	(642)	(731)	(167)	(24)
Profit after Taxation	**784**	1,028	372	337	92
Minority Interests	**(536)**	(9)	(318)	(73)	(2)
Profit Attributable to Shareholders	**248**	1,019	54	302	90
Dividends	**–**	(96)	(44)	(69)	(47)
Earnings per share					
– Basic	**8.91 Cents**	42.95 Cents	2.91 Cents	18.38 Cents	6.49 Cents
– Diluted	**8.64 Cents**	41.81 Cents	2.91 Cents	17.68 Cents	5.95 Cents
Total Assets	**21,307**	19,622	10,244	6,083	4,550
Total Liabilities	**13,434**	13,039	7,289	4,508	3,421
Net Assets	**7,873**	6,583	2,955	1,575	1,129
Cash reserves	**1,575**	1,939	1,026	1,396	984
Shareholders' funds	**6,473**	5,800	2,558	1,445	1,007

	Year ended 31 December				
	2008	2007	2006	2005	2004
Return on Equity (%)	**4%**	18%	2%	19%	8.9%
Current Ratio (times)	**1.65x**	1.59x	1.49x	1.28x	1.45x
Total Liabilities to Shareholders equity	**1.71x**	1.98x	2.85x	3.23x	3.40
Net Debt to Shareholders' Funds Ratio (times)	**1.83x**	1.91x	2.45x	2.23x	2.42x

Shi Jian

Chairman of the Board

Business Review

During 2008 pressure from the deteriorating external environment together with the adjustment of domestic structural policies subjected China's economic growth, which is characterized by reliance on exports and investment, to rigorous challenges. As a result the Chinese economy entered a phase of adjustment, and in response to these rapid changes at both international and domestic level, the Government was forced to take a series of significant steps. These included intensifying reforms, adjusting the growth model, restructuring the economy, increasing state investment and transforming what was previously a stable fiscal policy. This involved imposing strict control on the fiscal side, while monetary policy remained relatively lax, both aiming to enhance national and corporate competitiveness.

The year in retrospect shows us the Chinese real estate market went through the mill. In fact diminishing demand, declining prices, fund-raising problems and evolving policies were the most striking features of the period. In order to counter these problems the State Council Office issued guidelines on healthy real estate development in December 2008, and these provided unprecedented stimulus to the industry, evidencing for the first time Government support for real estate development.

In view of these circumstances the Group focused on product quality, while not underestimating the need to maximise cash by redoubling sales campaigns, designed to accelerate the recovery of outlays, and through only prudent expansion. The Group succeeded in making marked progress on all fronts through the exchange of ideas, through careful analysis of current conditions, by taking up the challenge of negative situations, and through cooperation and detailed planning.

Property Sales

Under these circumstances the Company's affiliates turned difficulties into challenges and responded to them proactively, according priority to sales and accelerating the recovery of capital. They adopted a number of sales strategies for unsold units, pressed ahead with new property sales and achieved impressive results. A total area of 141,588 m^2 was sold with a consideration of HK$ 2.08 billion.

Sales of properties developed by the Company at Beverly Oasis Garden, Jiangnan Oasis Garden and Thousand Island Oasis Garden entered their closing stages. Our prevailing tactics throughout were to realise our profit as soon as possible by exploring potential sales to old customers, while pinpointing the advantages of mature properties.

By year end Beverly Oasis Garden had seen a total 791 m^2 sold for HK$ 29.48 million, which comes to an average price of HK$ 37,300 per m^2, while one unit had been sold at Shanghai Rich Gate at RMB 95,000 per m^2, a new high for the small units, producing a total figure of HK$ 32.45 million, while Thousand Island Oasis Garden saw a total of 1,779 m^2 sold, accounting for HK$ 34.80 million.

Company properties at Cedar Island Oasis Garden, Central-Ring Centre, Jiangnan Rich Gate and Shenyang Rich Gate have been ongoing sales projects recently. Here our sales strategy was aimed at optimising cash flow with our brand advantage and top-class quality. We took account of market segmentation based on property characteristics in arriving at specific sales points, enabling co-ordinated targeted selling. There follows an outline of the results at each property.

Cedar Island Oasis Garden was marketed as offering reasonably-priced top-quality apartments, and the luxurious decoration was appreciated by buyers. The development stood head and shoulders above its competitors by virtue of its superior equipment design, personalized features and superior decoration. During the year it achieved more than satisfactory sales and indeed for several months it ranked top in Shanghai. A total of 88,754 m^2 was sold for HK$1.14 billion.

Jiangnan Oasis Garden achieved a breakthrough in fine villa decoration designed to create personalised demand. During the year this property was made available to all staff, and the results were remarkable. By year end a total area of 3,432 m^2 had been sold for an impressive HK$137 million, with the average price reaching RMB 35,000 per m^2.

Central Ring Centre is adjacent to Changfeng Commercial District in east Shanghai and connects to the Hongqiao commercial area to the south. It is circled by the Central Ring and by rail networks leading to the west Shanghai international business centre. Its Lakefront Oasis Garden has been sold in its entirety, and as at year end 20,179 m^2 of the office portion had been sold, bringing in HK$ 444.32 million.

Shenyang Rich Gate was not seriously disadvantaged by the financial crisis at home and abroad, and in fact Shenyang real estate in general managed very respectable and steady growth during 2008. Shenyang Rich Gate represents our first move outside Shanghai, and after one year of marketing emphasising its high quality and advantageous location, we nearly finished selling these top-class residential units. By 31 December 2008, an area of 24,979 m^2 had been sold for HK$266 million.

Yosemite Oasis Community is being built in Shenyang with a total area of 947 m^2 sold for HK$ 4.83 million.

Property Investment

The retail portion of Shanghai Rich Gate is a magnet for top international brands and niche luxury and personalized fashion products and is known for its provision of VIP service. Throughout the year we maintained high occupancy in the above-ground shops, and our first half efforts to diversify led us to lease the entire underground lettable shopping area to a Japanese supermarket. This immediately resulted in record rental income, and the opening of the supermarket promises to generate steady traffic and stable sales for the shops. In this way the annual daily rental for shops here averaged RMB 18.48 per m^2, the highest attaining RMB 41.

Shanghai Skyway Hotel (formerly Skyway Landis Hotel) had its first full year of operation in 2008, and it is fair to say it has done a lot to consolidate the basics, standardise its management, improve its reputation and develop aggressive strategies. In 2008 Skyway Hotel had to confront a declining number of guests and growing competition by focusing on marketing, appointing a new management company. Thus it was possible to develop more secure guest sources, such as business travellers, travel agency business, meeting and exhibition business and an expanded Japanese market. All these measures together lead us to expect growth in revenue in 2009. During the year the hotel saw rising monthly revenue and made progress in cost control and service improvements.

The retail portion of Shanghai Central Ring Centre has a gross area of 32,792 m^2, lies adjacent to Hongqiao CBD with the Central Ring commercial district behind, and specialises in supplying leisure activities, food and beverages to middle-class consumers. By year end it had attracted a number of well-known outlets such as Starbucks and Will's, with the occupancy rate for shops at around 43%. It had a soft opening in the second half, and we hope to secure a famous department store as anchor tenant.

Shenyang Rich Gate Shopping Mall has a gross area of 240,000 m^2, which makes it the largest mall in northeast China, and saw its soft opening on 8 April 2008. In its aim to provide a total format with multi-functional experience it has signed key names like Golden Jaguar and Watson's as tenants. Statistics show that the mall attracted in excess of three million customers between April and December, and it enjoys an excellent reputation.

Lexington Shenyang Rich Gate Hotel commenced operations at the end of July, since when the progress has been on target, and it has sound development potential. By approaching large customers, management established long-term cooperative relationships in an effort to ensure guest traffic. Another strong point is internal cost control, particularly at management level. By year end a total of 23,890 guests had stayed here – a respectable occupancy level.

Land Bank

During the year the PRC Government improved its micro-management of land supply and strictly controlled hoarding. Statistics show 64 tenders issued in Shanghai during 2008, with an area of 16.12 million m^2 sold, of which 2.52 million m^2 was for residential purposes, thus accounting for 15.66% of the total, while the majority was for industrial use. The gloomy market led to the Government becoming more prudent with land for residential purposes.

A successful tender in June 2008 saw Haikou Century Harbour City Co., Ltd, a subsidiary of the Company, awarded a lot at Xingang, north of Binhaidadao, Haikou, Hainan Province, which covers an area of 227,000 m^2 and has permissible gross floor area of 900,000 m^2. The lot is near Haikou Century Bridge and has a unique view along the coast, which has destined it for development into a HOPSCA international ecology city.

Successful tenders in March and December 2008 saw Shenyang Lukang Property Co., Ltd, another subsidiary, obtain the rights for two neighbouring lots at Lixiang Village, Dongling, Shenyang. The area is 426,000 m^2, with permissible gross floor area of 468,000 m^2 and is close to two international 18-hole golf courses covering over 300,000 m^2 with a superb view of Meilan Lake. It is destined to be developed into top-class English ambience town houses and apartments with unique golfing features.

At the end of the year the Group was engaged in development of at least ten real estate projects with cumulative floor area of some 5 million m^2, which would be adequate to keep us well occupied for the next five years.

Relocation Work

Several developments involved relocation work, which the Group is now quite experienced at. During the first half Group companies advanced relocation work at each project in line with the year's target in an orderly way and with the aid of local government support, which facilitated our progress. In the second half we had to mitigate the downturn in the PRC real estate market caused by financial fluctuations, so the Group adjusted its relocation strategy, braking relocation at some projects while basically matching expenses and income. It is fair to say that generally relocation made significant progress during the year.

Relocation work at **Albany Oasis Garden** under Shanghai Shuo Cheng Real Estate Ltd. has two portions. The eastern one, a relocation site from the beginning, extends from Baotong Road in the east to Zhongxxing Road and Lufeng Road in the south, and from Tongge Road, Gongxing Road and Zhiyuan Road in the west to Tiantongan Road in the north. The year saw relocation of 129 households and two companies, raising the aggregate number of families relocated to 4,471 and accounting for 82.02% of the total number of overall relocations. A total of 102 enterprises were relocated, accounting for 83.60% of the total.

Relocation work at **Qinhai Oasis Garden** under Shanghai Jinxin Real Estate Co. Ltd (formerly Shanghai Qinhai Real Estate Co. Ltd) commenced in September 2007. By year end 751 residents with home ownership certificates or leasing rights had been relocated, accounting for 40.88% of the total, as had one company.

Real Estate Development Co. Ltd in the logistics group of Liaoning Gaoxiao was awarded a demolition and removal permit for **Shenyang Albany**. The year saw relocation of 257 residents, which covered an area of 16,489 m^2.

Construction Projects

Guided by our mission of producing "high quality and premium" products, the Group focused on maximising the values of our products and the Company by luring mid-market and high-end customers with our outstanding quality of design, interior decoration and craftsmanship. The year went smoothly, the main projects being as follows:

Cedar Island Oasis Garden proceeded in line with plans made early in the year, which meant concentrating all the civil engineering work in 2008, so latterly a start was made on the construction superstructure of the buildings. Besides, decoration works for 360 residential apartments had also commenced by the end of 2008. In fact given the exigencies of quality decoration, this was the most important task at that stage. This section is expected to be handed over in July 2009, and then decoration of a further 120,000 m^2 residential apartments is to start from June 2009 onwards, with handover scheduled for January and June 2010.

Central-Ring Centre saw completion of the twin-tower office buildings, with buyers taking delivery. This marked completion of all except the hotel. The hotel has a gross floor area of 44,000 m^2, and its layout and design are still under close scrutiny.

Albany Oasis Garden saw commencement of Phase II in July 2008, and by year end the two underground levels had seen foundation, solidifying and excavation work completed on schedule. Preparation was made for the building service equipment list, the ancillary unit and professional subcontractor list, the entry arrangement plan and subcontractors' proposals.

Jiangnan Oasis Garden is a top-end villa catering to individual requests, meeting exacting standards and featuring the best in decoration. Despite the large amount of work required on the remaining decoration work this year, all villas and clubs were completed on schedule, and the features of the fashionably decorated villas were upgraded to 30 main systems, so measuring up to the high expectations of luxury customers.

Thousand Island Oasis Garden saw the focus on partial decoration of Phase III clubs, the renovation of houses and channel dredging. Thus the decoration and renovation work was completed and passed inspection, while dredging work is still under way.

Lake Malaren Garden (formerly known as "Rich Gate Mansion") is located at Luodian New Town, Shanghai, and abuts Lake Malaren Golf Club, Lake Malaren Resort and new outlets. After extensive research into the design with regard for market conditions our subsidiary quantified its unique positioning. Construction began in August 2008, and by year end the temporary sales office had been handed over to sales department after decoration. Other projects completed included putting green gradient reshaping and arbour planting at the riverside demonstration landscaping area. Civil engineering work for the clubs and two show-houses was completed, and it is expected that 15 buildings in Phase I will be completed and receive pre-sale permits during the first half of 2009.

Rich Gate Sea View located at Jinshan riverside in Shanghai has seen completion of layout and adjustments to design, with construction starting in September. This led to most of the floor formation works of the basement and part of the ±0.0 structure being completed.

Yosemite Oasis Community construction began in June, and by the end the year of 36 townhouses are under construction, covering an area of 100,000 m^2. It also received its pre-sale permit, and sales commenced at year end, with Phase I scheduled to be handed over in November 2009.

Shenyang Albany Oasis Garden is located at Heping in central Shenyang, and its layout and elevation design have been finalised. We are confident that the products of phase I align with market demands and meet the needs of relocated residents, which is a major factor in assuring smooth relocation work, which is still under way.

Shenyang Rich Gate saw 1,020 units in Phase I handed over, which represents a rate of 95%. The shopping mall was completed, along with service apartments and some offices. Preparation work for Phase II was under way, the plan being approved by the Shenyang Urban Planning Board, and tendering and bidding on schedule.

Haikou Bund Centre is a new project for the Group, and it is planned as an integrated coastal ecology city combining luxury apartments, coastal businesses and recreation, a 5-star hotel, grade A offices and a yacht club. Initial work is well under way, with site clearance, investigation, design, tendering and bidding all completed. Foundation work at sections A and B of Phase I has commenced, and it is planned that 100,000 m^2 of residential units will be completed in 2009, with 30,000 m^2 of service apartments being topped out. It is also planned that the construction of the Phase I yacht club, and the six Phase II riverside commercial buildings will also be completed during 2009.

Property Management

The Group is acutely aware of the importance of good management in property maintenance and to our brand name. Putting this into practice, Shanghai Real Estate Property Management Company Ltd, a Group subsidiary, primarily carries out management for Group properties. The Group additionally appoints renowned external companies to manage our luxury portfolio.

Shanghai Real Estate Property Management Company Ltd has established its reputation with the slogan "Home Sweet Home", and it is ranked Grade A in Shanghai for excelling in honest commitment. It is listed among the top 100 China Property Managers and the top 100 in all Asia.

Restructuring and Financing Activities

On December 15, 2008 the Group announced the issuance to selected investors of HK$165 million 2.5% p.a. convertible bonds due in 2013. These may be converted to 300 million ordinary shares ahead of maturity date at HK$ 0.55 per share.

The issuance of these convertible bonds increased Company liquidity, and will likely enlarge share capital, so positioning us well for the future.

The Group's Awards

2008 saw the Company, its subsidiaries and associates receive the following major awards:

Shanghai Jinwu Real Estate Co., Ltd. Central Ring Centre was awarded the Shanghai Urban Innovative Landmark Prize, the gold award for the year's most popular project, the Most Influential Landmark Prize, and units 1 and 3 were awarded the Shanghai White Orchid.

Shanghai Shuo Cheng Real Estate Co., Ltd. Albany Oasis Garden was awarded the Gold medal for the Best Design Competition, and it also received the "Four Excellences Quality Community" award.

Shanghai Oasis Garden Real Estate Co., Ltd. Cedar Oasis Garden was classified as "Outstanding Shanghai Property Project" and "Landmark Shanghai Property Project", and it was one of the most popular property projects online in China.

Shanghai Hangtou Govern Real Estate Co., Ltd. Thousand Island Oasis Garden was awarded the Fifth Shanghai Residential Property Prize and Excellent Energy-Saving and Environmental Awareness Prize.

Shanghai Skyway Hotel Co., Ltd. Skyway Hotel received the Shanghai White Orchid and Best Design Prize at the Jingan International Shopping Carnival, and it was awarded the Five Star Gold and Diamond Medal and Prize and named the International Hotel with Greatest Potential.

Shanghai Real Estate Property Management Company Ltd. It was acclaimed as a Grade A Shanghai Enterprise for Honest Commitment in Property Management, the Image Enterprise for the year, AAA Enterprise and Top 100 China Property Management Enterprises and Top 100 Asia Property companies.

Business Outlook

The international financial crisis starting this year gave rise to the first ever relaxation of Government macro-economic control. Maintaining growth and promoting development became the primary economic aims, and such policies have begun to take effect.

Preliminary data from the National Bureau of Statistics of China give the annual GDP at RMB 30,067 billion, representing an increase of 9.0% over the previous year. State fixed asset investment was RMB 17,229 billion, an increase of 25.5% over 2007. Real estate investment reached RMB 3,058 billion, an increase of 20.9% over the previous year, of which investment in commodity buildings reached RMB 2,208 billion, an increase of 22.6%, office building investment reached RMB 111 billion, an increase of 7.4%, and that in commercial buildings reached RMB 320 billion, an increase of 14.9%.

The Shanghai Report on National Economic and Social Development issued by the Shanghai Statistics Bureau and approved by the National Bureau of Statistics of China gives GDP of Shanghai for the year of RMB 1,369.82 billion, an increase of 9.7% over the adjusted 2007 figure, of which tertiary output accounted for RMB 735.04 billion, up 11.3% over the previous year, and accounting for to 53.7% of overall GDP. State fixed asset investment during the year amounted to RMB 482.95 billion, up 8.3% over 2007. Average urban household disposable income amounted to RMB 26,675, up 12.9% over the previous year, while per capita consumption expenditure was RMB 19,398 billion, up 12.4% over the previous year.

Completed real estate in Shanghai amounted to RMB 136.69 billion, representing a 4.5% growth which is 2% higher than the growth rate of the previous year, commodity property under construction reached 103.91 million m^2, a decrease of 3.5%. Completed residential property reached 24.75 million m^2, a decrease of 26.8%. Total of commodity property sold was 22.96 million m^2, 37.9% down from 2007. Sales amounted to only RMB 189.54 billion, down 38.6% against last year, so with the threat of global economic woe people were cautious about purchasing residential property.

The total area of Shanghai residential property sold was 19.66 million m^2, which was a year-on-year decrease of 40.1%. Sales amounted to RMB 160.85 billion, a year-on-year decrease of 40.6%, reflecting the worldwide crisis. The average rental of Grade A Shanghai offices was RMB 7.9 per m^2 per day, a year-on-year decrease of 8.1%. Exceptionally, though, rentals for retail properties rose to $ 46.4 per m^2 per month, a year-on-year increase of 7.6 %.

Preparations for the Shanghai World Expo are now well underway. By the end of the year 229 countries/and international organizations had confirmed their attendance breaking all previous records, and 176 parties had already signed contracts. The World Expo Centre, China Pavilion and Theme Pavilion have all been topped out, and the building of the infrastructure is well under way.

Shenyang, which is one of the Group's main strategic centres, has a real estate industry with healthy long-term prospects. This is because the living condition of Shenyang residents is much poorer than the country's average. Seeing Shenyang residents live in inferior quality housing when compared nationally, the local government focused on urban reconstruction to improve the environment, and this promoted the rapid growth of real estate by attracting foreign and domestic developers. This is why the price of residential properties in Shenyang bucked the trend and rose steadily despite global worries.

Hainan Province is a strategic region newly explored by the Group in 2008. Its geographical position and environmental advantages have led to buoyancy in tourism and have energised the property business, which has been outstanding since 2005 and possesses great investment potential.

Although the global economy has been heading down, and the real estate market may deteriorate further in 2009, a number of factors are expected to limit downward pressure. The implementation of fiscal and monetary policies by various governments should alleviate pressure on the global credit market. China's Government stimulus plan amounts to 16% of GDP, and we expect the real estate market to benefit, are confidently expecting increased stability.

The Group intends to face the challenge of the international situation and the domestic economy with astute policies, always remembering to stress product quality and maximise cash, so that we can build first-class properties with benefits for our shareholders and the community at large.

It is my privilege to express my gratitude to our strategic investors and shareholders for their unstinting trust and support and to offer my heartfelt thanks to all directors, executives and staff members at all group companies for their persistent hard work and loyalty throughout the year.

Shi Jian
Chairman

Hong Kong, 20 April 2009

Directors

Executive Directors

Mr. Shi Jian, aged 55, is the Chairman of the Board as well as the founder of the Group. Mr. Shi is responsible for the formulation of the Group's development strategy. From 1986 to 1993, Mr. Shi was an administration manager of Shanghai Rainbow Hotel. From 1993 to 1995, he was the general manager of the Universal Mansion project. Mr. Shi has nearly 20 years' experience in property investment and corporate operation.

Mr. Li Yao Min, aged 58, is the Vice Chairman of the Board. Mr. Li is in charge of the real estate development of the Group. He joined the Group in May 1993. From 1992 to 1993, Mr. Li worked for Shanghai Golden World Commercial Building Co., Ltd as general manager. Mr. Li has over 20 years' relevant management experience in construction, structure, planning and large scale real estate project development.

Mr. Yu Hai Sheng, aged 55, is the Vice Chairman of the Board and Chief Executive Officer of the Group. Mr. Yu is responsible for financing, capital operation and housing technology business of the Group. Mr. Yu obtained a Master of Business Administration from Shanghai University. Mr. Yu joined the Group in 1997. Mr. Yu had been manager of Shanghai Mechanical Engineering Company, factory manager of Shanghai Pioneer Mechanical Engineering Factory and chief of Industrial Planning Bureau of Shanghai Sports Commission. He has ample experience in the installation of electrical, mechanical and networking equipment and management.

Mr. Jiang Xu Dong, aged 45, is an Executive Director and Chief Operation Officer of the Group. Mr. Jiang is responsible for co-ordinating the real estate development business of the Group. Mr. Jiang graduated from Shanghai Tongji University in 1986 specializing in industrial and civil construction, and was awarded a MBA degree afterwards. He joined the Group in 1997. He was a department director of Shanghai Real Estate Administration Bureau between 1986 and 1997. Mr. Jiang has nearly 20 years' experience in property development and operation management.

Mr. Lee Wai Man, Benson, aged 53, is an Executive Director and Chief Financial Officer of the Group. Mr. Lee is responsible for overseeing corporate development and financial matters of the Group. He joined the Group in 2007. Mr. Lee obtained a Bachelor degree from the Chinese University of Hong Kong majoring in Economics in 1981. He also obtained a Master of Business Administration from the Geogia State University in 1983. He has over 20 years of experience in the financial industry. From 2001 to 2007, Mr. Lee was Senior Vice President and Head of China Corporates for CITIC Ka Wah Bank.

Non-executive Directors

Mr. Cheung Wing Yui, aged 59, is a Non-executive Director of the Company. Mr. Cheung has been a practicing lawyer in Hong Kong since 1979 and admitted as a solicitor in the United Kingdom and as advocate and solicitor in Singapore. He is currently a consultant of Messrs. Woo, Kwan, Lee & Lo, Solicitors and Notaries, and a member of the Council of the Open University of Hong Kong. Mr. Cheung is a director of a number of listed companies in Hong Kong (including SmarTone Telecommunications Holdings Limited, Sunevision Holdings Limited, Tianjin Development Holdings Limited, Ping An Insurance (Group) Company of China, Ltd., Tai Sang Land Development Limited, Hop Hing Group Holdings Limited and Agile Property Holdings Limited) and resigned as director of Taifook Securities Group Limited and Ching Hing (Holdings) Limited in 2007.

Mr. Jin Bing Rong, aged 60, is a Non-executive Director of the Company. Mr. Jin received a bachelar's degree from Fudan University in Shanghai in 1984. Mr. Jin has over 20 years of experience in the banking industry and was the former Chairman of the Shanghai branch of Agricultural Bank of China. Mr. Jin has been with the Agricultural Bank of China since 1984 and has served as the Chairman of its branches throughout various districts in Shanghai during his 20-plus year career.

Independent Non-executive Directors

Mr. Yeung Kwok Wing, aged 61, is an Independent Non-executive Director of the Company. Professor Yeung is presently Executive Director of Clothing Industry Training Authority. Professor Yeung obtained his Ph.D degree from Queen's University of Belfast, Northern Ireland. He is a senior fellow of the Textile Institute of UK, a senior fellow of the Hong Kong Institution of Textiles and Apparel and a senior fellow of the Society of Dyers and Colorists of UK.

Mr. Jiang Xie Fu, aged 66, was the Vice-Chairman of the Urban & Rural Construction and Environmental Protection Committee of Shanghai People's Congress Standing Committee for the past six years. He had been the Party Secretary of the Shanghai Municipal Housing, Land and Resource Administration Bureau. He obtained a Bachelor degree in Shanghai Normal University majoring in History.

Mr. E. Hock Yap, aged 53, is an Independent Non-executive Director of the Company. Mr. Yap graduated from Sheffield University with a bachelor of science degree in Chemical Engineering. He is a member of the Institute of Chartered Accountants in England. Mr. Yap has over 25 years of financial and accounting management, banking and investments experience.

Company Secretary

Mr. Lee Kwok Wah, aged 43, is the Company Secretary and Financial Controller of the Company. Mr. Lee joined the Group in August 2008. Mr. Lee obtained a Master of Business Administration from Hong Kong Polytechnic University. He has over eighteen years of experience in accounting and finance and is a fellow member of the Associated of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Lee is responsible for the financial accounting and company secretarial functions of the Company.

During the year under review and under the influence of the international financial crisis the PRC Government ensured the steady growth of the Chinese economy in a prudent and resilient way by means of its macro-economic policy, and the control it has been exerting on the real estate market well illustrates the flexibility of this prudent approach.

During the first half of the year, and under the influence of the contraction policies, the China real estate market returned to a more rational level following the overheating of 2007. In the second half the growth rate began to decline as the global financial crisis began to bite, and this was enhanced by the overheating prevention policy imposed at national level. Entering into the fourth quarter of the year, the Chinese government shifted from "overheat prevention" to "ensining a healthy growth" policy. As such the distinct downward trend in the real estate market was effectively curbed, and the market in general reverted to stable and reasonable development.

Apartments

As a result of promulgation in late 2007 by the People's Bank of China of the new policy on second apartments, the rampant trading of residential apartments in Shanghai was arrested, and this continued to gain momentum during 2008. Data issued by the Shanghai Bureau of Statistics show that total area of newly developed residential property fold in the city declined to 19.6586 m^2 million, which represent a 40.1% year-on-year decrease. This translated into RMB 160.85 billion in dollar terms, and thus amounted to a similar 40.6% year-on-year decrease. To this must be added the total of second-hand property sold at 14.14 m^2 million, which represents a 29.1% year-on-year decrease.

2008 continued to witness the transformation of Shanghai's old districts. Thus the total area demolished during the year was 7.54 m^2 million, which works out at an increase of 9.23%, with 51,300 residents relocated, which is an increase of 4.7% over the previous year. Old residential buildings totalling 12.2 m^2 million were rebuilt, so as at the end of the year the average urban floor area was 33.4 m^2, with the overall average at 16.9 m^2.

Despite the redoubled impact of the international crisis and domestic economic control, property prices in Shanghai did not suffer any noticeable decrease. Mr Cai Xucu, a economist of Shanghai Statistics Bureau, commented that the price trend for Shanghai residential properties did not evidence significant volatility. He said we had seen a small increase in the first half, which was counterbalanced by a slight decrease in the second half. Data from the Bureau of Statistics show how the price of new residential buildings in the second half fell less than 1% each month, specifically by 0.9%, 0.3%, 0.4% and 0.3% in September, October, November and December respectively. This brought the annual decrease to a mere 1.9% as compared to the previous year, and secondary market properties showed a similar decrease of 1.7% over the previous year.

Villas

The data exhibit that total Shanghai villa supply exceeded 2.3 m^2 million, with a cumulative trading volume of some 1.27 m^2 million and a supply/demand ratio of 1.8/1. Under the impact of the global economic downturn and the prevailing wait-and-see sentiment on the part of buyers, the decreased supply and demand ratio is attributable to markedly increased supply being met by reduced trading volume.

Against this environment of supply exceeding demand, the price of Shanghai villas nevertheless rose. The reason for this was that the ban on villa development enacted in previous years began to take effect, consequently enhancing their investment value due to scarcity, and so radically influencing buyers' expectations of the villa market.

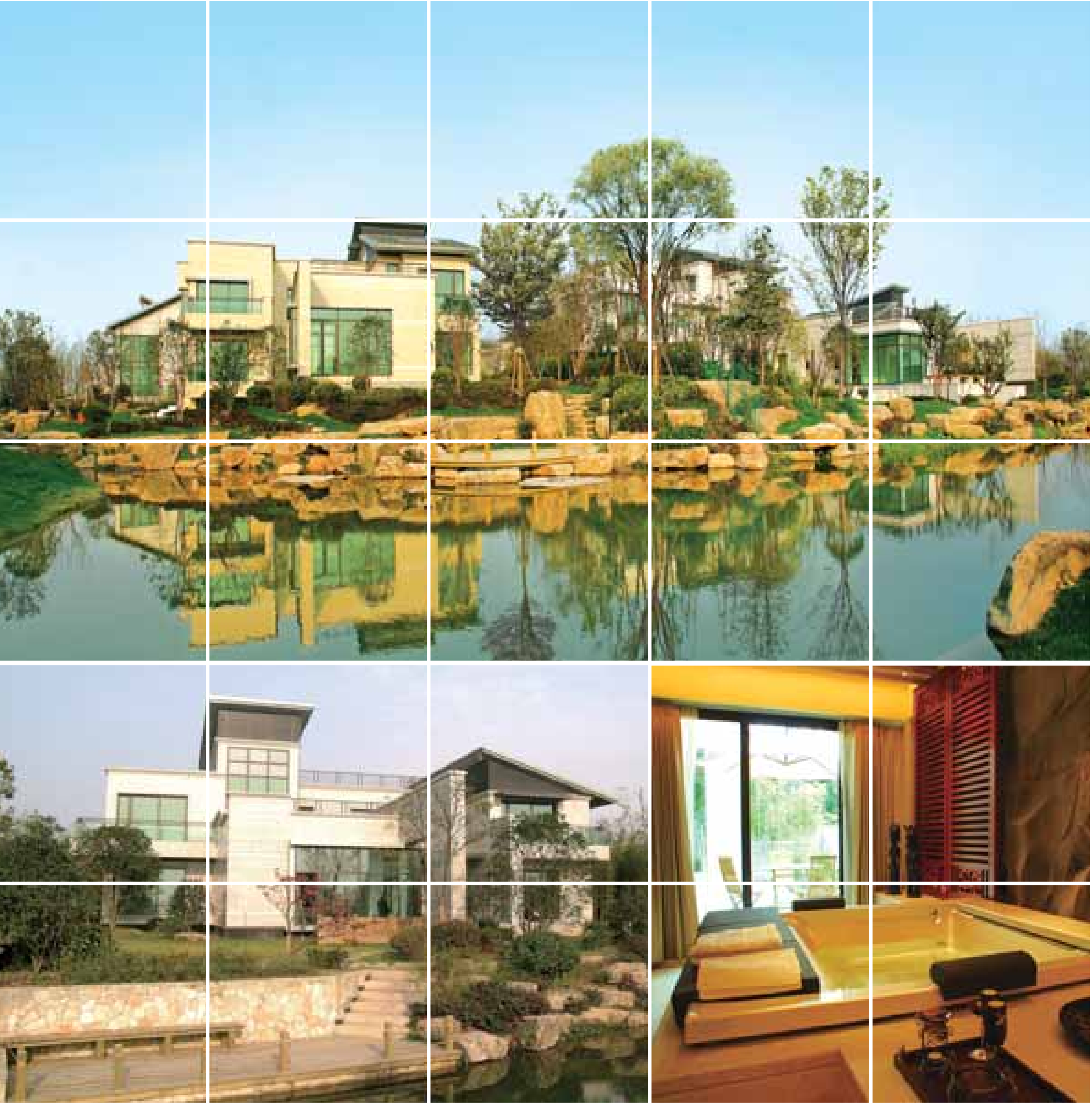
Commercial Real Estate

China commercial real estate in 2008 was characterised by a rise followed by adjustment. Thus the first half, boosted by the positive macro-economic situation and the abolition of limits on foreign investment in retail, saw a large number of commercial projects entered the construction phase, and to a boom in both supply and demand. However, during the second half, the impact of the world economic crisis led to domestic investors and developers successively braking the pace of transactions, and in addition the uptake also began to decline, leading to delays in both development and commencement of operation of commercial projects. Nevertheless these effects can be considered relatively small against the background of the sharp global economic slowdown, and particularly in comparison with the losses incurred by other sectors of both overseas and domestic markets.

Rentals of office buildings did not experience serious volatility across the main business districts during the first half, so rents were relatively stable, however a downward trend emerged in the second half. According to recent statistics for the fourth quarter 2008 from well-known international real estate consultant CB Richard Ellis, the average grade A Shanghai office rental was RMB 7.9 per m^2 per day, evidencing a decrease of 8.7% over the previous quarter and 8.1% year-on-year.

Foreign acquisition of commercial real estate in 2008 continued to be a major factor, and data from DTZ Debenham Tie Leung show that during the first eight months of the year such transactions accounted for around 80% with the total being over RMB 14.3 billion. The evidence shows that overseas capital is on the lookout for good properties, with the focus on those with clear geographical advantages and those currently undervalued. In addition overseas-invested companies were active in development of second-tier real estate, so for instance Xinjiangwan plot F entered into construction early on with RMB 17.08 billion being invested by Tishman Speyer Properties.

Against the rapid global slowdown the retail sector remained the most stable of the various categories. Although a number of landlords reduced their asking prices, CB Richard Ellis says rents for quality retail commercial properties rose by 7.6% to $46.4 per m^2 per day, which was lower than the 2007 growth rate of 9.1%. However the overall sentiment led to competition becoming fierce in the retail market as a whole, and the focus of the investors in this sector will be shifting from grabbing new development projects to luring tenants for thier retail properties. Against this it is fair to say that the future is full of opportunities and challenges for retail developers, and with the 2010 World Expo approaching, we fully expect the retail market to start moving up again with effect from late 2009.

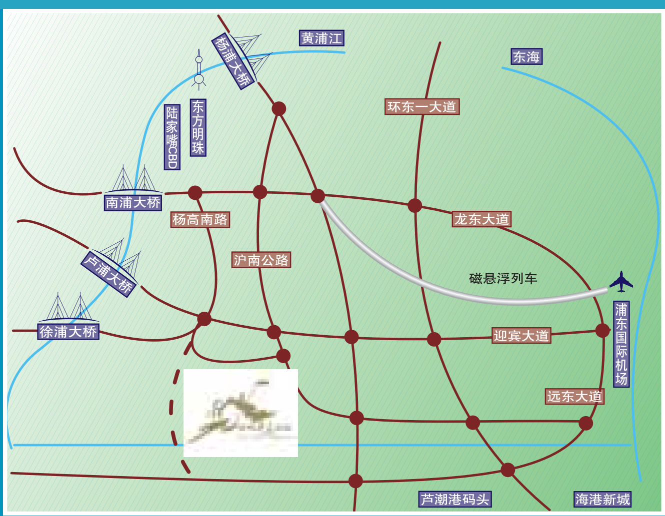


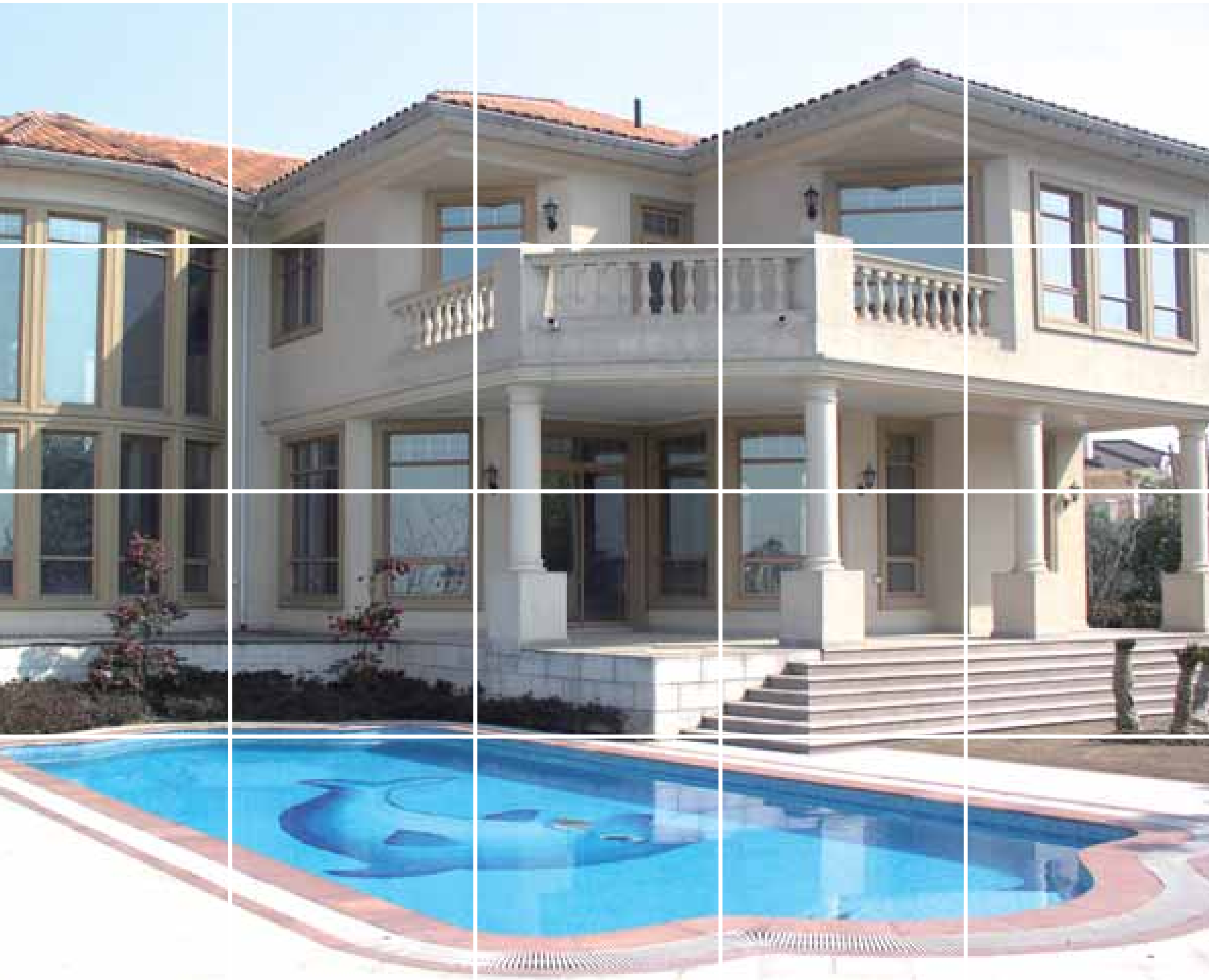
Project : **Jiangnan Oasis Garden**
Type : Residential
Location : Qing Pu District/West, Shanghai
Site area : 477mu (316,000m²)
GFA : 59,531m²
Address : No.6 & 18-1, Nan Gang Chuen, Zhu Jia Jiao Zheng, Qing Pu District, Shanghai, the PRC

Area Use	GFA (m²)	Date of Commencement	Completion Date
Phase I	35,954	2002	2004
Phase II	23,577	2005	2006

Project : **Thousand Island Oasis Garden**
Type : **Residential**
Location : **Nan Hui District/South-East, Shanghai**
Site area : **600mu (398,000m²)**
GFA : **102,115m²**
Address : **Hangtou Center in Nan Hui District, Shanghai, the PRC**

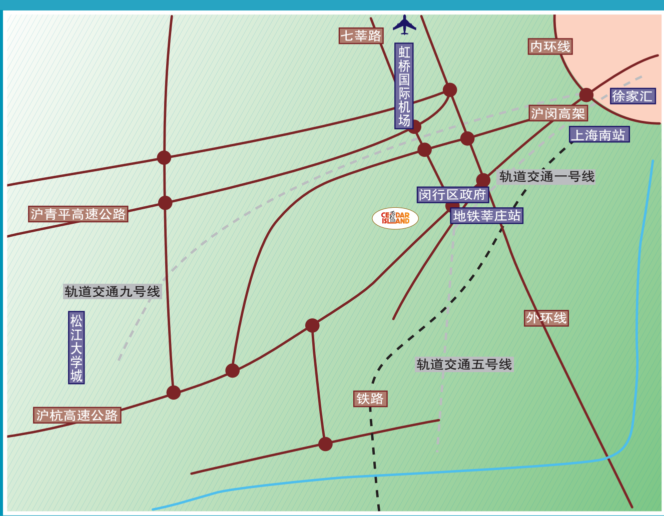
Area Use	GFA (m^2)	Date of Commencement	Completion Date
Phase I	10,648	2003	2004
Phase II	38,267	2004	2005
Phase III	53,200	2006	2007

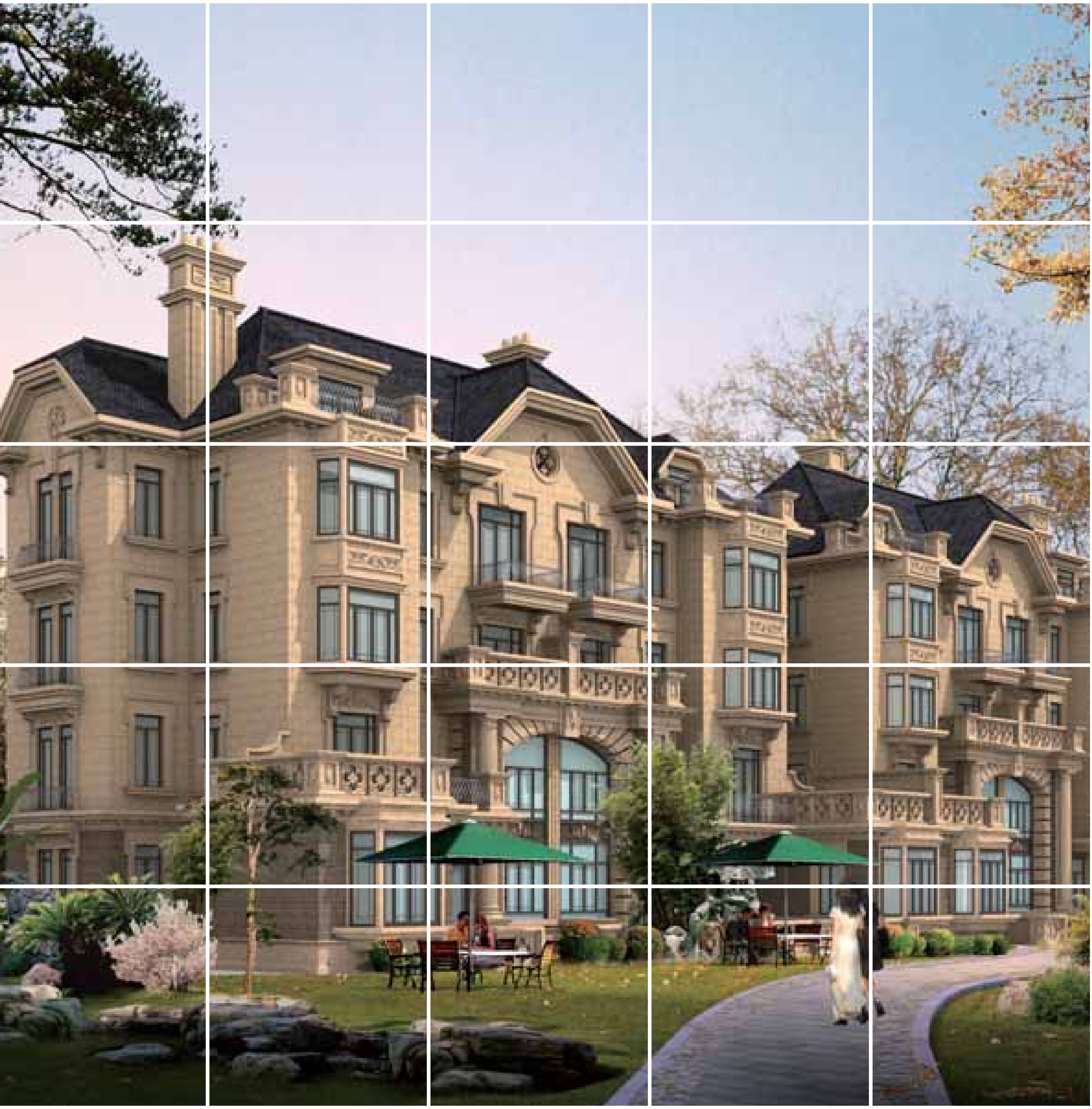




Project :	**Beverly Oasis Garden**
Type :	Residential
Location :	Song Jiang District/South-West, Shanghai
Site area :	1,250mu (829,000m²)
GFA :	199,827m²
Address :	Phase 1 : No. 366, Ming Hua Road, Xin Qiao Town, Song Jiang District, Shanghai, the PRC Phase 2 : Xin Qiao Town, Song Jiang District, Shanghai, the PRC

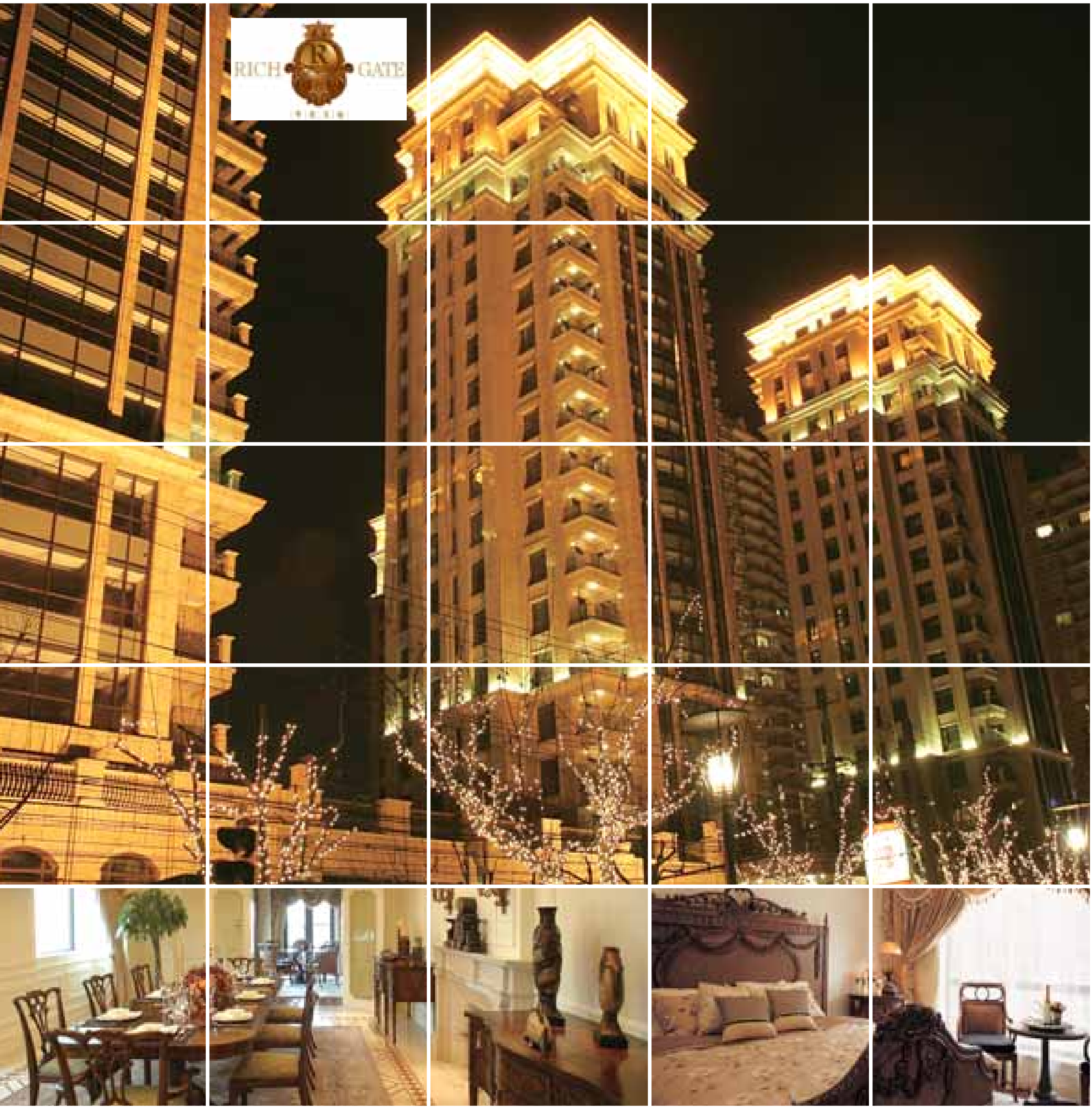
Area Use	GFA (m^2)	Date of Commencement	Completion Date
Phase I	115,187	1998	2002
Phase II	68,595	2001	2004
Phase III	16,045	2004	2006





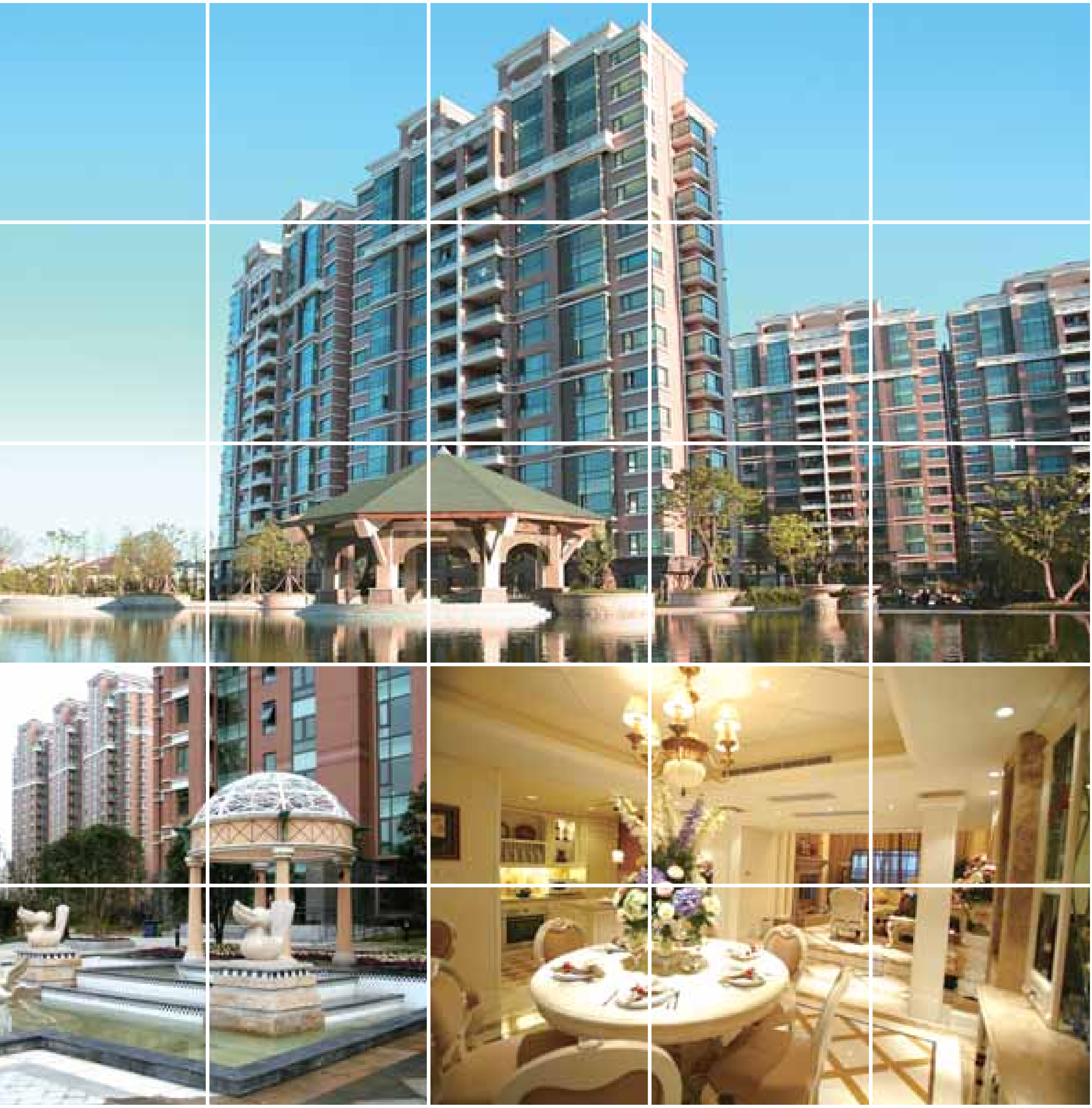
Project :	**Lake Malaren Garden (formerly known as "Rich Gate Mansion")**
Type :	**Residential**
Location :	**Baoshan District/Northeast, Shanghai**
Site area :	**181mu (120,595m²)**
GFA :	**128,237m²**
Address :	**Lot A3-2, Luodian New Town, Baoshan District, Shanghai**

Area Use:	GFA (m²)	Date of Commencement	Completion Date
Residential Phase I	37,371	2008	2010
Residential Phase II	90,866	2009	2011


RICH GATE

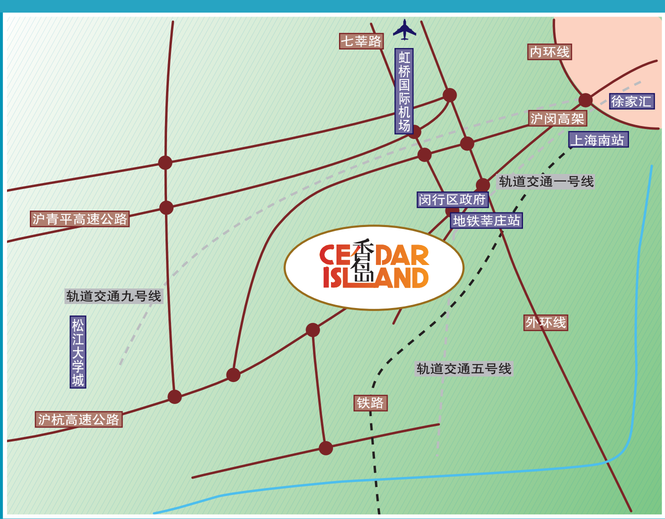
Project : **Shanghai Rich Gate**
Type : Residential & Retail
Location : Lu Wan District/Down Town Area, Shanghai
Site area : 22mu (14,651m2)
GFA : 52,172m2
Address : No.222, Ma Dang Road, 39 Lu Wan District, Shanghai, the PRC

Area Use	GFA (m^2)	Date of Commencement	Completion Date
Residential	40,860	2002	2006
Retail	11,312	2002	2006



Project : **Long Island Oasis Garden/ Cedar Island Oasis Island**
Type : **Residential**
Location : **Song Jiang District/South-West, Shanghai**
Site area : **750mu (497,000m^2)**
GFA : **542,317m^2**
Address : **1288 Alley, Hua Song Road, Jiu Ting Town, Song Jiang District, Shanghai, the PRC Shanghai, the PRC**

Area Use	GFA (m^2)	Date of Commencement	Completion Date
Phase I	96,587	2000	2002
Phase II	45,730	2002	2003
Phase III (1)	29,320	2003	2005
Phase III (2-A)	25,390	2003	2005
Phase III (2-B)	51,823	2004	2006
Phase III (2-C)	130,767	2005	2007
Phase III (2-D)	162,700	2007	2009



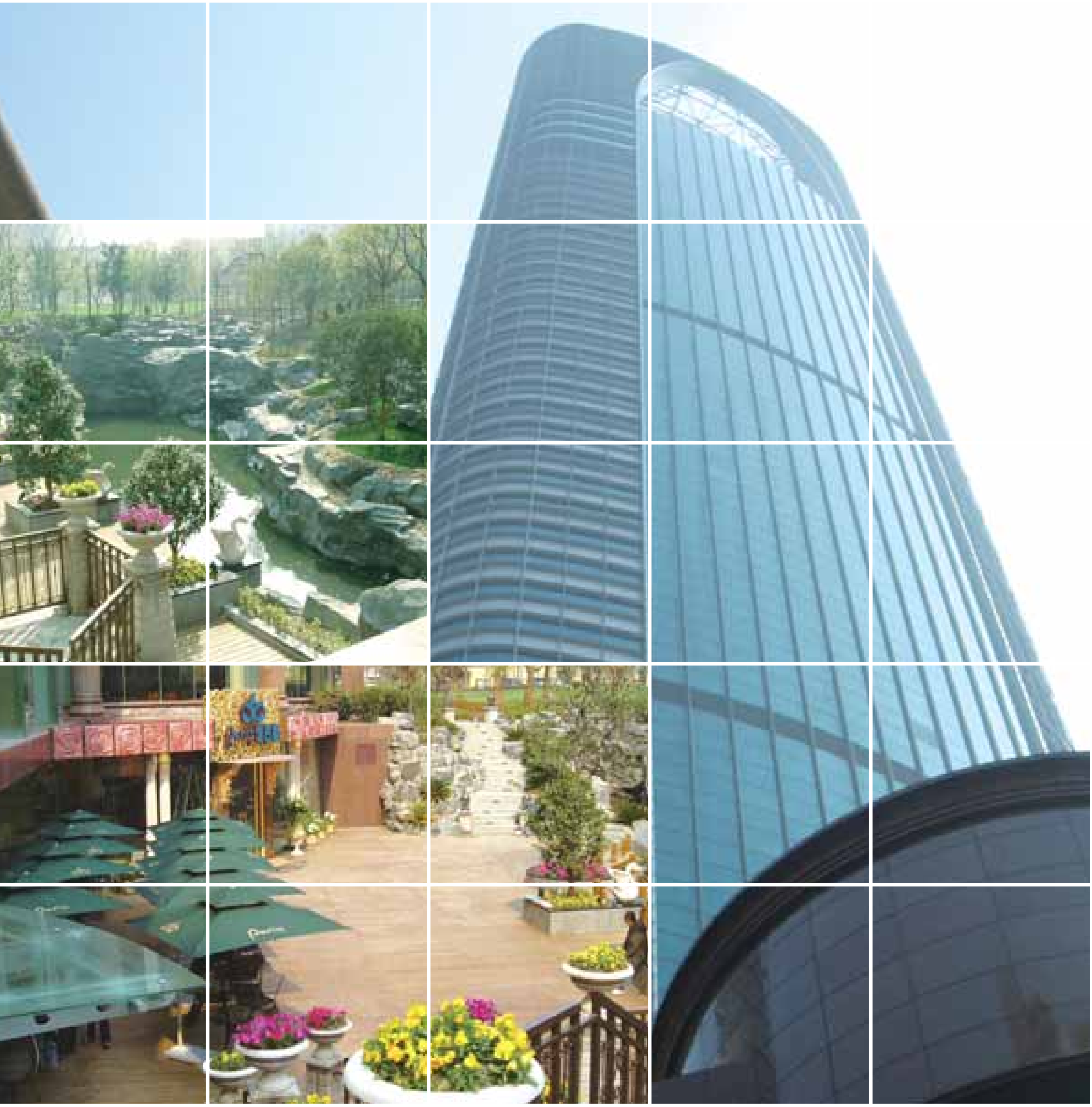

绿洲雅宾利花园
ALBANY OASIS GARDEN

Project : **Albany Oasis Garden**
Type : Mixed
Location : Zhabei District/Down Town, Shanghai
Site area : 309mu (206,010m^2)
GFA : 480,000m^2
Address : No.699 Zhong Xing Road, Shanghai, the PRC

Area Use	GFA (m^2)	Date of Commencement	Completion Date
Residential Phase I	75,000	2005	2007/8
Residential Phase II	50,772	2008	2010
Residential Phase III	103,738	2010	2012
Residential Phase IV	99,870	2012	2014
Facilities	10,000	2010	2012
Retail	40,000	2013	2016
Office	50,000	2013	2016
Hotel	50,000	2013	2016

Project : **Central-Ring Centre**
Type : Mixed
Location : Putuo District/Down Town, Shanghai
Site area : 112mu (74,268m²)
GFA : 321,637m²
Address : 1628 Alley, Jin Sha Jiang Road, Putuo District, Shanghai, the PRC

Area Use:	GFA (m^2)	Date of Commencement	Completion Date
Residential Phase I	47,822	2002	2005
Residential Phase II	18,155	2002	2006
Office	28,582	2006	2007
Facilities	77,000	2004	2007
Retail	30,466	2004	2007
Office (twin-tower)	91,030	2006	2008
Hotel	28,582	2010	2012



Project : **Skyway Hotel**
Type : **Hotel**
Location : **Lu Wan District/Down Town Area, Shanghai**
Site area : **21mu (14,279m²)**
GFA : **100,761m²**
Address : **Lot B &C, 53 Alley, Da Pu Road, Lu Wan District, Shanghai, the PRC**

Area Use	GFA (m²)	Date of Commencement	Completion Date
Hotel	100,761	2003	2007

Project : **Qinhai Oasis Garden**
Type : **Residential and Commercial**
Location : **Huang Pu District/Down Town Area**
Site area : **56mu (37,129m²)**
GFA : **194,576m²**
Address : **717–719 Jie Lane, Huang Pu District, Shanghai, the PRC**

Area Use	GFA (m^2)	Date of Commencement	Completion Date
Residential	59,185	2010	2012
Commercial	70,391	2010	2012
Facilities	65,000	2010	2012

Project : **Rich Gate Sea View**
Type : **Residential**
Location : **Shanyang Town/Southwest, Jinshan District, Shanghai**
Site area : **54mu (35,852m²)**
GFA : **107,000m²**
Address : **Lot 151/3, Haiguang Village, Shanyang Town, Jinshan District, Shanghai**

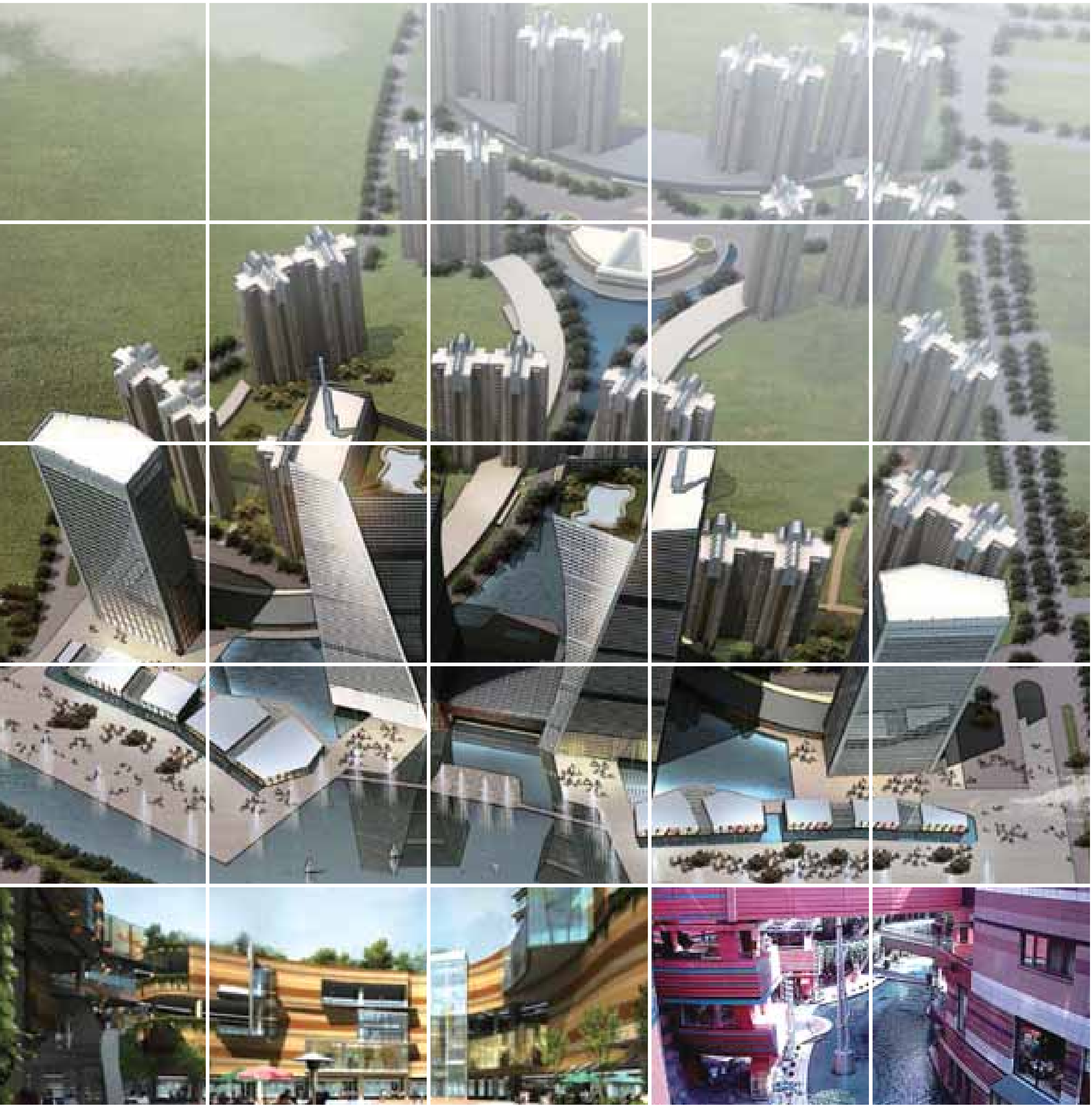
Area Use:	GFA (m^2)	Date of Commencement	Completion Date
Residential	89,000	2008	2010
Facilities	18,000	2008	2010

Project : **Shenyang Yosemite Oasis Community**
Type : **Residential**
Location : **Shenyang City/South-east, Liaoning**
Site area : **638mu (425,732m²)**
GFA : **540,000m²**
Address : **Lot 08-04, 072109005 & 072109007 Lixiang New Town, Dongling District, Shenyang**

Area Use	GFA (m²)	Date of Commencement	Completion Date
Residential Phase I	264,345	2008	2010
Residential Phase II	203,960	2009	2011

Project : **Shenyang Rich Gate**
Type : Mixed
Location : Liaoning/Down Town Area, Shenyang
Site area : 243mu(161,885m^2)
GFA : 1,464,246m^2
Address : No. 2003-059 land in Financial Development Zone of Shenyang North Station

Area Use	GFA (m^2)	Date of Commencement	Completion Date
Serviced apartment (Phase I)	76,394	2005	2007
Hotel	56,000	2005	2007
Office (Phase I)	18,852	2005	2007
Retail (Phase I)	240,000	2005	2007
Residential (Phase II)	493,000	2010	2014
Retail (Phase II)	180,000	2009	2010
Office (Phase II)	350,000	2013	2014
Hotel (Phase II)	50,000	2013	2014



Project : **Shenyang Albany**
Type : Residential & Commercial
Location : Shenyang City/Downtown, Liaoning
Site area : 238mu (158,536m²)
GFA : 1,000,000m²
Address : Lot 2007-024, Nanda Street, Heping District, Shenyang

Area Use	GFA (m²)	Date of Commencement	Completion Date
Residential	700,000	2009	2015
Commercial (Mixed)	300,000	2010	2015

Project : **Haikou Bund Centre**
Type : Mixed
Location : Haikou City/Downtown, Hainan
Site area : 341mu (227,272m²)
GFA : 903,551m²
Address : New Port District, Bin Hai Road, Haikou, Hainan, the PRC

Area Use	GFA (m^2)	Date of Commencement	Completion Date
Residential Phase I	81,446	2008	2011
Serviced apartment Phase I	22,540	2008	2011
Retail Phase I	4,063	2008	2011
Residential Phase II	221,520	2010	2012
Retail Phase II	19,251	2010	2012
Residential Phase III	237,080	2011	2013
Retail Phase III	2,440	2011	2013
Residential Phase IV	142,800	2013	2015
Retail Phase IV	77,411	2013	2015
Office & Hotel Phase IV	95,000	2013	2015

Financial Review

Turnover and profit attributable to shareholders

In 2008, the Group recorded a net revenue of approximately HK$3,740 million (2007: HK$3,350 million), which increased by approximately 11.6% compared with that of 2007. Profit attributable to shareholders was approximately HK$248 million, a decrease of 75.7% compared with approximately HK$1,019 million in 2007.

Liquidity and Financial Resources

The Group's liquidity position remains stable. As at 31 December 2008, cash and bank balances amounted to approximately HK$1,575 million (2007: HK$1,939 million) (Note 28). For details of cash flows in 2008, please refer to consolidated cash flow statement. Working capital (net current assets) of the Group as at 31 December 2008 amounted to approximately HK$4,808 million (2007: HK$4,789 million), an increase of 0.4% from previous year. Current ratio slightly improved to 1.65x (2007: 1.59x).

As at 31 December 2008, the total liabilities to total equity decreased to 1.71x (2007: 1.98x). At the balance sheet date, the Group's gearing ratio is approximately 51% (2007: 52%), calculated on the basis of the Group's net payables and borrowings (after deducting cash and bank balance of approximately HK$1,575 million) over total capital (total equity plus net payables and borrowings).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

On 29 June 2007, Wellton Resources Limited ("Wellton"), a wholly-owned subsidiary of the Company, entered into a conditional transfer agreement (the "Transfer Agreement") with Shanghai Haizhan Investment and Management Company Limited ("Shanghai Haizhan"), the "Vender" whereby it agreed to acquire the remaining 49% equity interest in Shanghai Zhufu Property Company Limited from Shanghai Haizhan at a consideration of RMB70 million. As one of the Conditions, namely obtaining or completion of all approvals and/or consents necessary or reasonably required by the Wellton for the Acquisition, has not been fulfilled, Wellton and the Vendor have agreed to abort the Acquisition and have entered into an agreement to such an effect on 3 December, 2008.

On 29 November 2007, Elegant Parkview Limited (the "Vendor"), a substantial shareholder of Shenyang Huarui Shiji Asset Management Company Limited and Shenyang Huarui Shiji Investment Development Company Limited, both of which are 51% owned subsidiaries of the Company, China Edifice Ltd. (the "Purchaser") and China Edifice Holdings Ltd. ("China Edifice"), both are wholly-owned subsidiaries of the Company, entered into a conditional sale and purchase agreement (the "Agreement") whereby the Purchaser agreed to purchase and to take assignment of the entire equity interest and the outstanding loan of USD4.9 million of Qualico Investments Limited for the aggregate consideration of HK$1,987 million, which shall be satisfied by China Edifice issuing at the direction of the Vendor 3,496 shares to Mr. Ng Chi Ming and 304 shares to Pinpoint China Fund, both being the existing shareholders of the Vendor. As agreed by the Vendor, the Purchaser and China Edifice, the conditions fulfillment date as described in the Agreement has been extended to 30 June 2008. The Acquisition and the Cross Indemnity was duly approved by the Independent Shareholders by way of poll at the SGM held on 18 February 2008.

As the Conditions on completion of the procedures for the De-merger and the issue of a PRC legal opinion to confirm the same have not yet been fulfilled, the parties to the Acquisition Agreement have agreed to further extend the Long Stop Date to 30 June, 2009.

On 2 January 2008, Shanghai Zhufu Property Dev. Co., Limited, a subsidiary of the Company acquired an additional 40% of the voting shares of Shanghai Liangshi Enterprises Ltd.("Liangshi"), the parent of Shanghai Shangzhi Property development Co.,Ltd, taking its ownership to 100% at cash consideration of RMB 400,000.

On 31 March 2008, Lihon Investment Limited, a subsidiary of the Company entered into an agreement to acquire 100% equity interest in Lukang at consideration of USD5 million, a property development company located in Shenyang City, the PRC.

On 17 August 2008, SRE signed a letter of intent with a third party ("the Vendor") to acquire its 100% equity interest in a resort investment management company in Jiaxing. In connection with this transaction, the Group paid US$36 million (equivalent to HK$279 million) to the Vendor as earnest money. The earnest money was interest free, and should be returned once the acquisition conditions can not be meet by 30 June 2009.

On 19 December 2008, the Group sold 10% interest in Shanghai Meilan Huafu Real Estate Co., Ltd ("Meilan Huafu"), for a consideration of RMB179 million (equivalent to HK$200 million). Thereafter, the Group had no interest in Meilan Huafu.

Shangzhi Real Estate is a new indirect subsidiary as a result of the de-merger of Shanghai Mengshan Real Estate Company Ltd ("Old Mengshan"). In 2008, Old Mengshan (a subsidiary of the Company since 29 November 2007) was legally split into two separate entities (the "Mengshan De-merger"), Shangzhi Real Estate and new Shanghai Mengshan Real Estate Company Ltd ("New Mengshan"). After completion of the Mengshan De-merger in October 2008, though LiangShi (an indirect subsidiary, which the Company holds effective interest of 50.36%) owned 99% equity interest in New Mengshan, LiangShi contractually had no voting rights (except for certain protective rights, i.e., only resolutions for amendments of articles of association, for change in capital and liquidation, are subject to the LiangShi's agreement) and will not benefit from any profits or suffers losses arising from the operations of New Mengshan. Thus New Mengshan is not a subsidiary of the Group, however, the Shangzhi Real Estate will be held jointly liable for certain payables for liabilities incurred prior to the De-merger and assumed by New Mengshan as a result of the De-merger. There is no gain or loss from the Mengshan De-merger.

Employees

As at 31 December 2008, the Group had retained 2,716 (2007: 1,940) employees in Hong Kong and the PRC. Total staff costs of the Group, excluding directors' remuneration, for the year under review amounted to approximately HK$81.99 million (2007: HK$61.61 million). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of individual employee.

Charges on Assets and Contingent Liabilities

At the balance sheet date, total bank loans of approximately HK$4,113 million (2007: HK$3,357 million) were secured by pledge of the Group's leasehold land, together with properties under development for long-term investment and properties held or under development for sale. Details of which are set out in note 31 to the financial statements.

As at 31 December 2008, the Group had contingent liabilities of approximately HK$15 million (2007: nil) in respect of guarantees to assist home buyers to obtain mortgage loans from banks and complete mortgage procedures. Details of which are set out in note 41 to the financial statements.

Under the relevant PRC laws, Shangzhi Real Estate is jointly liable for all outstanding debts and amounts payable to creditors of Mengshan that were in existence prior to the De-merger. Such debts / amounts owing to creditors of Mengshan that Shangzhi Real Estate is jointly liable for as at 31 December 2008 amounted to approximately HK$2.49 million (RMB2.2million). Details of which are set out in Note 41 to the financial statements.

The directors have pleasure in submitting the annual report together with the audited financial statements of SRE Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2008.

Principal Activities

The Group is a reputable integrated property developer in Shanghai. The Group's brand name "Oasis Garden", "Rich Gate", "Skyway" and "Albany" enjoys good reputation both at home and abroad.

Turnover and contribution to profit before taxation of the Group are derived mainly from sale and presale of properties in the People's Republic of China.

Segmental Information

Details of the Group's turnover and contribution by principal activity and geographical area for the year ended 31 December 2008 are set out in note 4 to the financial statements.

Results and Appropriations

Details of the Group's results for the year ended 31 December 2008 are set out in the consolidated income statement on page 59. No interim dividend was recommended by the Board of Directors of the Company. The Board of Directors has resolved to not recommend the payment of final dividend in respect of the year ended 31 December 2008 (2007: HK$0.035 per ordinary share).

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 31 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

Distributable Reserves

As computed in accordance with The Companies Act 1981 of Bermuda, the total amount of reserves of the Company available for cash distribution was approximately HK$5.8 million (2007: HK$98 million) as of 31 December 2008. The share premium account with a balance of approximately HK$3,725 million (2007: HK$3,683 million) may be distributed in the form of fully paid bonus shares.

Pre-Emptive Rights

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

Purchase, Sale and Redemption of Shares

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

Fixed Assets and Investment Properties

Details of the movement in fixed assets and investment properties of the Group are set out in notes 16 and 17 respectively to the financial statements.

Related Party Transactions

Details of the Related Party Transactions of the Group for the year ended 31 December 2008 are set out in note 45 to the financial statements.

Directors

The directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Shi Jian
Mr. Li Yao Min
Mr. Yu Hai Sheng
Mr. Jiang Xu Dong
Mr. Lee Wai Man

Non-executive Directors

Mr. Cheung Wing Yui
Mr. Jin Bing Rong

Independent Non-executive Directors

Mr. Yeung Kwok Wing
Mr. Jiang Xie Fu (appointed on 1 July 2008)
Mr. E. Hock Yap
Mr. Geng Yu Xiu (resigned on 1 July 2008)

The Company had received confirmation from each of the independent non-executive directors of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange and considered all independent non-executive directors to be independent.

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Bye-laws of the Company, Mr. Cheung Wing Yui, Mr. Jin Bing Rong, Mr. Jiang Xie Fu, Mr. Yu Hai Sheng and Mr. Li Yao Min will retire at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

Directors' Emoluments

Details of directors' emoluments are set out in note 10 to the financial statements.

Directors' Service Contracts

As at 31 December 2008, each of the following Directors had entered into a service contract with the Company, the terms and conditions of which are set out below:

Director	Term of Service Contract	Fixed Annual Remuneration (in HK$)	Compensation for termination
Executive Director			
Shi Jian	1 January 2009 to 30 June 2010	1,500,000	6 months' salary
Li Yao Min	1 July 2007 to 30 June 2010	1,500,000	6 months' salary
Yu Hai Sheng	1 January 2009 to 30 June 2010	2,000,000	6 months' salary
Jiang Xu Dong	1 July 2007 to 30 June 2010	2,000,000	6 months' salary
Lee Wai Man	25 September 2007 to 24 September 2010	2,200,000	6 months' salary
Non-executive Director			
Cheung Wing Yui	1 July 2008 to 30 June 2010	330,000	1 months' salary
Jin Bing Rong	1 July 2008 to 30 June 2010	330,000	1 months' salary
Independent non-executive Director			
Yeung Kwok Wing	1 July 2008 to 30 June 2010	165,000	1 months' salary
Jiang Xie Fu	1 July 2008 to 30 June 2010	240,000	1 months' salary
E Hock Yap	1 July 2008 to 30 June 2010	220,000	1 months' salary

Each Director is entitled to an annual bonus under the relevant service contract, the amount of which is to be determined by the Board from time to time (which shall not be more than 10% of the Company's profit after taxation and minority interests in any event).

Save as disclosed above, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation).

Directors' and Chief Executives' Interests in Equity or Debt Securities

As at 31 December 2008, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in Shares

Name of Director	Personal Interests	Family Interests	Corporate Interests	Total	Approximate Percentage of Shareholding
Shi Jian	2,076,887	2,220 (Note 1)	1,248,400,938 (Note 2)	1,250,480,045	44.92%
Li Yao Min	2,220	–	–	2,220	0.0001%
Yu Hai Sheng	1,065,987	–	–	1,065,987	0.06%

Notes:

1. These shares were held by Ms. Si Xiao Dong, the wife of Mr. Shi Jian.

2. These Shares were held by SRE Investment Holding Limited (formerly known as "Good Time Resources Limited"), a company incorporated in the British Virgin Islands in which Mr. Shi Jian and his wife, Ms. Si Xiao Dong, together beneficially own 63% of its issued share capital. The remaining 37% interest in SRE Investment Holding Limited were held by other management staff of the Company including but not limited to Mr. Yu Hai Sheng, Mr. Li Yao Min and Mr. Jiang Xu Dong. Mr. Shi Jian and Mr. Li Yao Min, being executive Directors, are directors of SRE Investment Holding Limited.

Save as mentioned above, as at 31 December 2008, none of the Directors or chief executive of the Company or any of their associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors' Interest in Contracts

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Company's directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares

In 2008, all directors had not been granted any options nor exercised any options.

Saved as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Substantial Shareholders' Interests

As at 31 December 2008, so far as is known to any Director or chief executives of the Company, the following persons, other than a Director or chief executives of the Company, had an interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under the Section 336 of Part XV of the SFO:

Long positions in Shares

Name of Shareholder	Capacity	No. of Shares Held	Interest in Underlying Shares of Equity Derivatives of the Company Pursuant to Convertible Notes	Aggregate Interests	Approximate Percentage of Shareholding
Si Xiao Dong	Beneficial owner, spouse and corporate interest	1,250,480,045 (Note 1)	–	1,250,480,045	44.92%
SRE Investment Holding Limited (Note 2)	Beneficial owner	1,248,400,938	–	1,248,400,938	44.84%
CITIC Group (Note 3)	Interest of the corporation controlled by CITIC Group	–	300,000,000	300,000,000	10.78%
Well Fortune Investment Limited (Note 3)	Person have a security interest in shares	–	229,090,909	229,090,909	8.23%

Note 1-These Shares in which Ms. Si Xiao Dong is interested in comprise (i) 2,220 Shares being personal interest held by Ms. Si Xiao Dong; (ii) 1,248,400,938 Shares being interest held by SRE Investment Holding Limited in which Ms. Si Xiao Dong and her spouse, Mr. Shi Jian together beneficially own 63% of its issued share capital; and (iii) 2,076,887 Shares being personal interest of Mr. Shi Jian.

Note 2-These Shares were held by SRE Investment Holding Limited, a company incorporated in the British Virgin Islands in which Mr. Shi Jian and his wife, Ms, Si Xiao Dong, together beneficially own 63% of its issued share capital. The remaining 37% interest in SRE Investment Holding Limited were held by other management staff of the Company including but not limited to Mr. Yu Hai Sheng, Mr. Li Yao Min and Mr. Jiang Xu Dong. Mr. Shi Jian and Mr. Li Yao Min being executive Directors, are directors of SRE Investment Holding Limited.

Note 3-CITIC Capital Holdings Limited, CITIC International Financial Holdings Limited, Gloryshare Investments Limited, Forever Glory Holdings Limited, Golden Gateway Enterprises Inc, CITIC Pacific Limited and CITIC Group are deemed to be interested in 10.78% of the issued share capital of SRE Group, while CITIC Capital China Real Estate Investment Fund III, L.P., CITIC Capital Real Estate GP Limited, CITIC Capital Global Services Holdings Limited are deemed to be interested in 8.23% of the issued share capital of SRE.

Save as disclosed above, there was no person, other than a Director or chief executive of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company kept under Section 336 of the SFO.

Share Option Scheme

A share option scheme was approved in a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion at any time during the ten years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and will be determined according to the higher price of (i) the nominal value of the shares of the Company (ii) the average official closing price of the shares on the SEHK for the five trading days immediately preceding the relevant offer date and (iii) the official closing price of the shares on the SEHK on the relevant offer date. Options granted become vested immediately and are not conditional on employees' service period. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee and unless the Board shall otherwise resolve in relation to any option at the time of grant, such period of time should not exceed 3 years commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of such period or 11 November 2009, whichever is the earlier.

No share option was granted, exercised, cancelled or lapsed during the year ended 31 December 2007 and 2008 respectively.

Major Customers and Suppliers

During the year, less than 30 per cent of the Group's sales and less than 30 per cent of the Group's purchases were attributable to the Group's five largest customers combined and five largest suppliers combined respectively.

Directors' Compliance with the Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Specific enquiry has been made of all Directors, who have confirmed that they compiled with required standard set out in the Model Code

Public Float

According to the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the public float requirement under the Listing Rules.

Audit Committee

The Company established an audit committee on 12 November 2001 with terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee has five members comprising the two non-executive Directors and the three independent non-executive Directors. The audited annual financial report for the year ended 31 December 2008 has been reviewed by the Audit Committee.

Pension Scheme

Details of the Group's pension schemes are set out in note section of other employee benefits of 2.4 to the financial statements.

Auditors

The Group's financial statement for the year ended 31December 2006 was audited by Messrs. PricewaterhouseCoppers

The financial statements for the year ended 31 December 2007 and 2008 have been audited by Messrs. Ernst & Young. A resolution for their re-appointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board
Shi Jian
Chairman

Hong Kong, 20 April 2009

In April 2005, the Company adopted its own code on corporate governance practices which incorporates all the code provisions and a majority of the recommended best practices in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Throughout the period, the Company complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14.

The Board and senior management are committed to maintain a high standard of corporate governance which provides a framework and solid foundation for achieving a high standard of accountability and transparency.

Throughout the year ended 31 December 2008, the Company has complied with the board's practices and procedures as set out in the Listing Rules.

The Board had put in place a proper corporate governance structure in the Company. It is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. Under the Board, there are currently 2 subcommittees, namely Audit Committee and Remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

During the year, the Board complies at all times with the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors and one of them have appropriate professional qualifications or accounting or related financial management expertise.

The number of full Board and Committee meetings attended by each Director during the year are as follows:

	Full Board (Note 1)	**Audit Committee** (Note 1)	**Remuneration Committee** (Note 1)
Executive Director			
Shi Jian	4(4)		
Li Yao Min	3(4)		
Yu Hai Sheng	4(4)		
Jiang Xu Dong	4(4)		
Lee Wai Man	3(4)		
Non-executive Director			
Cheung Wing Yui	4(4)	2(2)	1(1)
Jin Bing Rong	4(4)	2(2)	
Independent non-executive Director			
Yeung Kwok Wing	4(4)	2(2)	1(1)
Jiang Xie Fu (Note 2)	3(4)	1(2)	
E Hock Yap	4(4)	2(2)	1(1)

Note:

1. Number of meetings attended (number of meetings held)
2. Mr. Jiang Xie Fu man was appointed on 1 July 2008

Board Practices

As at 31 December 2008, the Board comprises ten directors of the Company (the "Directors") including the executive directors of the Company, the independent non-executive directors and non-executive directors of the Company. There is no financial, business, family or other material/relevant relationship amongst the Directors.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

Board papers are circulated and the Company Secretary attends all regular board meetings to advice on corporate governance and statutory compliance when necessary. In addition, the Company has maintained a procedure for Directors to seek independent professional advice in appropriate circumstances.

Remuneration Committee

According to the Code, the Company has set up a remuneration committee with a majority of the members thereof being independent non-executive directors. The remuneration committee comprises a majority of Independent Non-executive Directors of the Company, and schedules to meet at least once a year. It is chaired by Mr. E. Hock Yap and comprises two other members, namely Mr. Yeung Kwok Wing and Mr. Cheung Wing Yui. All remuneration committee members, with the exception of Mr. Cheung Wing Yui, are Independent Non-executive Directors. The quorum necessary for the transaction of business is two.

The principal functions of the remuneration committee include to review and determine specific remuneration packages for each Executive Director and senior management by reference to corporate goals and objectives resolved by the Board from time to time; and to review the share option scheme of the Company.

Audit Committee

The Company established an audit committee on 12 November, 2001. The major duties of the Audit Committee include:

- to consider and recommend the appointment, re-appointment and removal of external auditor;
- to approve the remuneration and terms of engagement of external auditor, any questions of resignation or dismissal of that auditor;
- to review and monitor external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services and to make recommendation of any measures for improvements to be taken;
- to review the interim and annual financial statements and the quarterly, interim and annual reports before submission to the Board;
- to review the Group's financial controls, internal control and risk management systems and ensure that the management has discharged its duty to have an effective internal control system;
- to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

- to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and monitor the effectiveness of the internal audit function;

- to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and to ensure that the Board will provide a timely response to the issues raised; and

- to review the Group's financial and accounting policies and practices.

The audit committee has explicit authority to investigate into any matter under the scope of its duties and the authority to obtain independent professional advice. It is given full access to and assistance from the management and reasonable resources to discharge its duties properly. At least once annually, the audit committee will meet the external auditors without the presence of the management.

The audit committee had met two times to review the interim and annual results of the Group during the year ended 31 December 2008.

Internal Control and Risk Management

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

Auditors' Remuneration

During the year, the auditors of the Company, Messrs. Ernst & Young, charged RMB3,750 thousand (equivalent to HK$4,215 thousand) for audit services.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have complied with the required standard set out in the Model Code throughout the year of 2008.

Investor relations and Shareholders' Right

The Company uses a number of formal communications channels to account to shareholders and investors for the performance of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the website of the Company; (iv) the Company's website offering communication channel between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serving the shareholders respecting all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to shareholders in a timely manner and on a regular basis through the publication of interim and annual reports and/or dispatching circular, notices, and other announcements.

Board of Directors

Shi Jian *(Chairman)*
Li Yao Min *(Vice-Chairman)*
Yu Hai Sheng *(Vice-Chairman & Chief Executive Officer)*
Jiang Xu Dong *(Chief Operation Officer)*
Lee Wai Man *(Chief Financial Officer)*
Cheung Wing Yui*
Jin Bing Rong *
Yeung Kwok Wing**
Jiang Xie Fu**
E. Hock Yap**

* Non-executive Directors
** Independent Non-executive Directors

Authorized Representatives

Shi Jian
Li Yao Min

Company Secretary

Lee Kwok Wah

Legal Advisers

Woo, Kwan, Lee & Lo

Auditors

Ernst & Young

Principal Bankers

Hong Kong:	Bank of China (HK) Ltd. CITIC Ka Wah Bank Limited
PRC:	The Agricultural Bank of China, The Industrial and Commercial Bank of China

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Office

Room 2501, 25th Floor, Office Tower, Convention Plaza,
1 Harbour Road, Wanchai, Hong Kong.

Principal Registrar and Transfer Office

Butterfield Corporate Service Ltd
Rose Bank Centre
11 Bermudiana Road
Pembroke, Bermuda

Hong Kong Branch Registrar and Transfer Office

Tricor Tengis Limited
Share Registration
26/F, Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

Stock Code

1207

Internet Web Site

www.sre.com.cn

E-mail

general@sregroup.com.hk

To the shareholders of SRE Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of SRE Group Limited set out on pages 59 to 144 which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

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

Ernst & Young
Certified Public Accountants
18F Two International Finance Centre, 8 Finance Street, Central
Hong Kong
20 April 2009

Year ended 31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	2008	2007
Revenue	5	3,739,865	3,350,446
Cost of sales	7	(2,844,987)	(2,713,929)
Gross profit		894,878	636,517
Selling and marketing costs	7	(75,685)	(112,345)
Administrative expenses	7	(251,350)	(173,746)
Other income		–	969
Other gains – net	6	1,411,217	1,302,738
Operating profit		1,979,060	1,654,133
Finance income	8	152,521	187,161
Finance costs	9	(11,063)	(140,105)
Finance income – net		141,458	47,056
Share of profits and losses of associates		(443,186)	(31,021)
Profit before tax		1,677,332	1,670,168
Tax	12	(893,471)	(641,960)
Profit for the year		783,861	1,028,208
Attributable to:	13		
Equity holders of the parent		247,936	1,019,040
Minority interests		535,925	9,168
		783,861	1,028,208
Dividends – proposed final	14	–	96,000
Earnings per share attributable to ordinary equity holders of the parent	15		
– Basic		8.91 cents	42.95 cents
– Diluted		8.64 cents	41.81 cents

The accompanying notes are an integral part of these consolidated financial statements.

31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

		Group		Company	
	Notes	2008	2007	2008	2007
ASSETS					
Non-current assets					
Property, plant and equipment	16	1,668,269	1,429,956	282	272
Investment properties	17	5,248,073	1,842,375	–	–
Prepaid land lease payments	18	885,914	1,108,527	–	–
Properties under development for long-term investment	19	–	880,124	–	–
Goodwill	20	447,495	422,627	–	–
Investments in subsidiaries	21(a)	–	–	4,565,875	4,260,440
Advances to subsidiaries	21(b)	–	–	1,073,459	857,205
Interests in associates	22(a)	530,402	972,668	–	–
Deferred tax assets	34	19,811	–	–	–
Other non-current assets	23	279,042	63,159	279,042	41,801
		9,079,006	6,719,436	5,918,658	5,159,718
Current assets					
Prepaid land lease payments	18	6,654,264	5,554,483	–	–
Properties held or under development for sale	24	3,096,513	4,109,523	–	–
Inventories		30,885	24,673	–	–
Dividends receivable from subsidiaries		–	–	390,573	976,131
Amounts due from associates	22(b)	138,968	11,048	132,438	3,868
Prepayments and other current assets	25	66,404	78,891	555	638
Other receivables	26	642,145	1,106,464	–	252
Accounts receivable	27	18,165	54,817	–	–
Prepaid income tax		5,303	23,837	–	–
Cash and bank balances	28	1,575,476	1,939,359	170,687	269,482
		12,228,123	12,903,095	694,253	1,250,371
Total assets		21,307,129	19,622,531	6,612,911	6,410,089

31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	Group 2008	Group 2007	Company 2008	Company 2007
EQUITY AND LIABILITIES					
EQUITY					
Issued capital and premium	29	**4,003,101**	3,956,327	**4,003,101**	3,956,327
Other reserves	30	**1,019,625**	555,442	**527,086**	262,737
Retained profits	30				
– Proposed final dividend		**–**	96,000	**–**	96,000
– Others		**1,449,859**	1,192,117	**5,817**	1,573
Equity attributable to equity holders of the parent		**6,472,585**	5,799,886	**4,536,004**	4,316,637
Minority interests		**1,400,776**	783,469	**–**	–
Total equity		**7,873,361**	6,583,355	**4,536,004**	4,316,637
LIABILITIES					
Non-current liabilities					
Interest-bearing bank and other borrowings	31	**3,045,114**	2,629,211	**216,865**	351,078
Guaranteed notes	32	**1,537,947**	1,540,928	**1,537,947**	1,540,928
Deferred tax liabilities	34	**1,430,596**	755,355	**–**	–
		6,013,657	4,925,494	**1,754,812**	1,892,006
Current liabilities					
Interest-bearing bank and other borrowings	31	**1,495,640**	1,164,570	**142,620**	142,182
Convertible bonds-host debts	33	**62,008**	35,363	**62,008**	35,363
Derivative financial liabilities	35	**88,470**	19,604	**88,470**	19,604
Advances received from the pre-sale of properties under development	36	**1,171,996**	2,392,775	**–**	–
Accounts payable	37	**1,357,377**	1,596,202	**–**	–
Other payables and accruals	38	**2,241,817**	2,072,911	**21,024**	4,297
Current income tax liabilities		**983,491**	831,880	**–**	–
Amounts due to related companies	39	**19,312**	377	**7,973**	–
		7,420,111	8,113,682	**322,095**	201,446
Total liabilities		**13,433,768**	13,039,176	**2,076,907**	2,093,452
Total equity and liabilities		**21,307,129**	19,622,531	**6,612,911**	6,410,089
Net current assets		**4,808,012**	4,789,413	**372,158**	1,048,925
Total assets less current liabilities		**13,887,018**	11,508,849	**6,290,816**	6,208,643

The accompanying notes are an integral part of these consolidated financial statements.

Shi Jian
Chairman

Yu Hai Sheng
Vice Chairman and Chief Executive Officer

Consolidated Statement of Changes in Equity

Year ended 31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Attributable to equity holders of the parent								
	Issued capital and premium (Note 29)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2007	2,042,586	12,012	248	77,894	63,019	361,884	2,557,643	396,981	2,954,624
Exchange realignment	–	–	–	–	261,230	–	261,230	67,750	328,980
Total income and expense for the year recognised directly in equity	–	–	–	–	261,230	–	261,230	67,750	328,980
Profit for the year	–	–	–	–	–	1,019,040	1,019,040	9,168	1,028,208
Total income and expense for the year	–	–	–	–	261,230	1,019,040	1,280,270	76,918	1,357,188
Effects of change in tax rate	–	2,567	–	–	–	–	2,567	–	2,567
Issue of shares upon conversion of convertible bonds	121,672	–	–	–	–	–	121,672	–	121,672
Share of equity movements in an associate	–	(18,196)	–	–	–	–	(18,196)	–	(18,196)
Acquisition of minority interests	–	–	–	–	–	–	–	(1,335)	(1,335)
Acquisition of a subsidiary	1,768,421	–	–	–	–	–	1,768,421	250,925	2,019,346
Capital contribution from minority shareholders of a subsidiary	–	–	–	–	–	–	–	61,728	61,728
Increase in fair value of previously held interest upon step acquisition to a subsidiary	–	106,955	–	–	–	–	106,955	–	106,955
Revaluation reserve transfer to retained profits upon sale of properties	–	(86,469)	–	–	–	86,469	–	–	–
Transfer from retained profits	–	–	–	136,182	–	(136,182)	–	–	–
Dividends relating to 2006									
– Cash dividends (Note 14)	–	–	–	–	–	(19,446)	(19,446)	–	(19,446)
– Scrip dividends (Note 29)	23,648	–	–	–	–	(23,648)	–	–	–
Dividends paid to minority shareholders	–	–	–	–	–	–	–	(1,748)	(1,748)
At 31 December 2007	3,956,327	16,869*	248*	214,076*	324,249*	1,288,117	5,799,886	783,469	6,583,355

Year ended 31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Attributable to equity holders of the parent									
	Issued capital and premium (Note 29)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Retained profits	Total	Minority interests	Total equity
At 1 January 2008	3,956,327	16,869	248	214,076	324,249	–	1,288,117	5,799,886	783,469	6,583,355
Exchange realignment	–	–	–	–	397,874	–	–	397,874	15,094	412,968
Total income and expense for the year recognised directly in equity	–	–	–	–	397,874	–	–	397,874	15,094	412,968
Profit for the year	–	–	–	–	–	–	247,936	247,936	535,925	783,861
Total income and expense for the year	–	–	–	–	397,874	–	247,936	645,810	551,019	1,196,829
Share of equity movements in an associate	–	–	–	–	–	75,940	–	75,940	–	75,940
Acquisition of minority interests (Note 21(a)(i))	–	–	–	–	–	–	–	–	(427)	(427)
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	100,397	100,397
Revaluation reserve transfer to retained profits upon sale of properties	–	(9,631)	–	–	–	–	9,631	–	–	–
Dividends relating to 2007										
– Cash dividends (Note 14)	–	–	–	–	–	–	(49,051)	(49,051)	–	(49,051)
– Scrip dividends (Note 29)	46,774		–	–	–	–	(46,774)	–	–	–
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	(33,682)	(33,682)
At 31 December 2008	**4,003,101**	**7,238***	**248***	**214,076***	**722,123***	**75,940***	**1,449,859**	**6,472,585**	**1,400,776**	**7,873,361**

* These reserve accounts are all booked under the consolidated reserves of HK$1,019,625 thousand (2007: HK$555,442 thousand) in the consolidated balance sheet.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	40	(504,384)	1,024,670
Interest paid		(433,183)	(305,183)
Income tax paid		(118,208)	(284,325)
Net cash inflow/(outflow) from operating activities		(1,055,775)	435,162
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(288,913)	(10,482)
Proceeds from disposal of property, plant and equipment		5,738	5,652
Construction of investment properties		(151,639)	(736,954)
Acquisition of subsidiaries, net of cash acquired	44	(26,784)	99,522
Disposal of subsidiaries		–	(21,360)
Refund/(prepayment) for acquisition of an additional equity interest in a subsidiary		41,374	(41,801)
Cash receipts from the shareholder in respect of land obtained via the acquisition of a subsidiary		–	549,445
Increase in investments in an associate		(14,023)	–
Disposal of an equity interest in a company	23(c)	199,685	–
Earnest money paid for investment and properties	22(b),23(a)	(403,040)	–
Increase in time deposits with original maturity over three months when acquired	28	(4,997)	–
Interest received		16,727	45,533
Net cash used in investing activities		(625,872)	(110,445)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of convertible bonds		162,932	–
Refund of a guarantee deposit for currency swaps		–	53,272
Increase in pledged bank deposits		(95,932)	(74,426)
Proceeds from short-term borrowings		737,045	218,130
Repayments of short-term borrowings		(1,299,467)	(137,194)
Proceeds from long-term borrowings		1,569,355	802,322
Repayments of long-term borrowings		(446,647)	(480,608)
Redemption of convertible bonds		(46,406)	–
Cash received from the capital injection from minority shareholders of subsidiaries		100,397	64,075
Dividends paid to minority shareholders of subsidiaries		(33,682)	–
Dividends paid to the Company's shareholders	14	(49,051)	(19,446)
Net cash generated from financing activities		598,544	426,125
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,083,103)	750,842
Cash and cash equivalents at beginning of year	28	1,851,769	1,010,743
Effect of foreign exchange rate changes, net		104,857	90,184
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	873,523	1,851,769

The accompanying notes are an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

SRE Group Limited (the "Company") was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Bermuda Companies Act 1981. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on Hong Kong Exchanges and Clearing Limited ("HKEx"), the Company became the ultimate holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30 November 1999. The shares of the Company were listed on HKEx on 10 December 1999. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company and its subsidiaries (collectively referred to as the "Group") were mainly engaged in real estate development and hotel operations in the Mainland China.

2.1 BASIS OF PREPARATION

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

In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity, its ability to maintain adequate cash inflow from operations and financing to meet its financial obligations as and when they fall due, and believe that adequate funding is available to fulfil the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

Basis of consolidation

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

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

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.1 BASIS OF PREPARATION (continued)

Operating cycle

The operating cycle of the Group is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Due to the nature of the Group's business, the Group's normal operating cycle is longer than twelve months. The Group's current assets include assets (such as development held or under development for sale) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the balance sheet date.

Foreign currencies

(a) **Functional and presentation currencies**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's and its subsidiaries' functional currencies are Renminbi ("RMB"), as the major revenues are derived from operation in Mainland China. Considering the Company is listed on the HKEx, Hong Kong dollars ("HK$") is chosen as the presentation currency to present the consolidated financial statements.

(b) **Transactions and balances**

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(c) **Group companies**

The results and financial position of all the group entities (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:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are included in the exchange fluctuation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences 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.

31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

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

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group are as follows:

(a) HKAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is calculated as the higher of an asset's fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventories when rental ceases and they are held for sale.

(b) HKAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

(c) HKAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(d) HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

(e) HKAS 40 *Investment Property*: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Buildings	Shorter of 40 years or the remaining terms of the leases, which range from 35 to 40 years
Leasehold improvements	Shorter of the remaining period of the lease or useful life of assets
Furniture, fitting, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

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

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

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

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with HKAS 16. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. As a lessor, the Group recognises the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

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

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with policies set out for “Revenue recognition” below.

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

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as “Other income” in accordance with the policies set out for “Revenue recognition” below. Losses arising from the impairment of such investments are recognised in the income statement as “Impairment losses on available-for-sale financial assets” and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Impairment of financial assets

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

Assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for an available-for-sale equity investment when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

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

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

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

Financial liabilities at fair value through profit or loss

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

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Financial guarantee contracts

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its host debt component. On initial recognition, the derivative component (including all embedded derivatives that should be separated from the host debt) of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host debt component (as a liability). Transaction costs are apportioned between the host debt and derivative component of the convertible bonds based on the allocation of proceeds to the host debt and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the host debt is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Derecognition of financial liabilities

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

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

Derivative financial instruments

With the exception of the derivatives embedded in the Group's convertible bonds and Guaranteed Notes, the Group does not hold or issue any derivative financial instrument either for hedging or for trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

Properties held or under development

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value. Properties under development for long-term investment are stated at cost less any accumulated impairment losses.

The costs of properties held or under development consist of construction expenditures and borrowing costs directly attributable to the construction of such properties and other direct costs. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

No depreciation is provided on properties held or under development for sale, and properties under development for long-term investment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories mainly comprise food, beverages and operating supplies and are stated at the lower of cost or net realisable value. Cost is determined on weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

Cash and cash equivalents

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

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, etc.

Provisions

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Revenue recognition

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

Sale of development properties

Revenue from the sale of properties is recognised upon completion of a sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advances received from the pre-sale of properties under development.

Sale of network equipment

Revenue from the sale of network equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. The Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Construction of infrastructure for an intelligent network and installation of intelligent network

Revenue from the construction of infrastructure for an intelligent network and installation of intelligent network is recognised as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is problable will be recoverable.

Property leasing

Revenue from property leasing is recognised on a straight-line basis.

Property management income

Property management income is recognised in the accounting period in which the services are rendered.

Hotel operation

Revenue from hotel operation represents the income from hotel rooms and the sale of related food and beverages, which is recognised when the services are rendered or goods are sold.

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

Dividend income

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

Other employee benefits

Pursuant to the People's Republic of China ("PRC") laws and regulations, contributions to the basic old age insurance for the Group's local staff have been made monthly to a government agency based on 19%-22% of the standard salary set by the government. The government agency is responsible for the pension liabilities relating to such staff on their retirement. In addition, the Group participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's monthly salary are made by the employer and the Hong Kong employee, respectively. The provision and contributions have been included in the accompanying consolidated income statement upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a weighted average capitalisation rate of 8.02% (2007: 7.56%) has been applied to the expenditure on the individual assets.

Dividends

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

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group. Contingent liabilities and assets are not recognised on the balance sheets of the Group and the Company.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments-Group as lessor

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was HK$447 million (2007: HK$423 million). More details are given in Note 20.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

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

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

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by 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 principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2008 was HK$5,248 million (2007: HK$1,842 million). More details are given in Note 17.

Impairment of non-financial assets (other than goodwill)

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

Estimation of fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

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4. SEGMENT INFORMATION

The Group's turnover and results for the years ended 31 December 2008 and 2007 were mainly derived from property development, property leasing, hotel operation, corporate and other operations. In accordance with the Group's internal financial reporting, the Group has determined that the primary segment reporting basis is by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as the majority of the Group's customers and operations are located in Mainland China.

An analysis by business segment is as follows:

	Year ended 31 December 2008				
	Property development	Property leasing	Hotel operation	Corporate and other operations	Total
Segment revenue					
External sales	3,515,811	67,663	96,886	59,505	3,739,865
Segment profit/(loss)	852,599	1,369,402	(107,322)	(135,619)	1,979,060
Finance income					152,521
Finance costs					(11,063)
Finance income-net					141,458
Share of profits and losses of associates	–	–	–	(443,186)	(443,186)
Profit before tax					1,677,332
Income tax expense					(893,471)
Profit for the year					783,861
Segment assets and liabilities					
Segment assets	12,907,980	5,354,972	1,817,715	696,060	20,776,727
Interests in associates	–	–	–	530,402	530,402
Total assets	12,907,980	5,354,972	1,817,715	1,226,462	21,307,129
Segment liabilities	9,696,931	1,871,065	55,297	1,810,475	13,433,768
Total liabilities	9,696,931	1,871,065	55,297	1,810,475	13,433,768
Other segment information:					
Depreciation	6,493	112	91,484	525	98,614
Capital expenditure	3,185,900	126,161	256,256	1,512	3,569,829
Fair value gain on derivative financial liabilities, net	–	–	–	7,240	7,240
Fair value gain on investment properties	–	1,394,587	–	–	1,394,587
Impairment loss charges	–	–	38,827	104,882	143,709

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4. SEGMENT INFORMATION (continued)

	Year ended 31 December 2007				
	Property development	Property leasing	Hotel operation	Corporate and other operations	Total
Segment revenue					
External sales	3,209,511	40,846	39,030	61,059	3,350,446
Segment profit/(loss)	555,733	968,581	(76,503)	206,322	1,654,133
Finance income					187,161
Finance costs					(140,105)
Finance income-net					47,056
Share of profits and losses of associates	–	–	–	(31,021)	(31,021)
Profit before income tax					1,670,168
Income tax expense					(641,960)
Profit for the year					1,028,208
Segment assets and liabilities					
Segment assets	13,614,565	3,177,016	1,388,794	469,488	18,649,863
Interests in associates	–	–	–	972,668	972,668
Total assets	13,614,565	3,177,016	1,388,794	1,442,156	19,622,531
Segment liabilities	9,525,136	1,314,449	50,203	2,149,388	13,039,176
Total liabilities	9,525,136	1,314,449	50,203	2,149,388	13,039,176
Other segment information:					
Depreciation	4,359	911	28,517	642	34,429
Capital expenditure	4,896,315	707,507	74,387	778	5,678,987
Fair value loss on derivative financial liabilities	–	–	–	51,825	51,825
Fair value gain on investment properties	–	942,269	–	–	942,269
Impairment loss charges	3,672	–	–	7,262	10,934

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5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, an appropriate proportion of contract revenue of construction contracts; the value of services rendered; and gross rental income received and receivable from investment properties during the year.

An analysis of revenue is as follows:

	2008	2007
Sale of development properties	**3,705,960**	3,395,319
Revenue from construction of infrastructure for an intelligent network	**4,103**	33,162
Sale of network hardware and installation of intelligent home equipment	**6,340**	5,264
Revenue from property leasing (Note 17)	**72,939**	42,156
Property management income	**53,443**	24,206
Hotel operation	**102,010**	41,095
	3,944,795	3,541,202
Less: sales taxes (a)	**(204,930)**	(190,756)
	3,739,865	3,350,446

(a) Sales taxes

Sales taxes applicable to the Group represent business tax and surcharges. The respective tax rates are as follows:

Types of taxes	**Applicable tax rates**	**Tax base**
Business tax	5%	Revenue from the sale and pre-sale of properties, hotel operation, installation of intelligent home equipment and property leasing.
	3%	Net income received from the construction of infrastructure for an intelligent network after deducting amounts payments to subcontractors.
City development tax	1% to 7%	Business tax and value added tax ("VAT") for the period
Education supplementary tax	3% to 4%	Business tax and VAT for the period

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6. OTHER GAINS-NET

	2008	2007
Fair value gain on investment properties (Note 17)	**1,394,587**	942,269
Derivative financial instruments at fair value through profit or loss-fair value gain/(loss), net	**7,240**	(51,825)
Gain/(loss) on disposal of property, plant and equipment, net	**542**	(175)
Loss from dilution of interests in an associate (Note 22(a)(i))	**(41,616)**	–
Gain on disposal of interest in an invested company (Note 23(c))	**178,326**	–
Impairment of property, plant and equipment (Note 16)	**(38,827)**	–
Gain from redemption of CB2	**12,783**	–
Impairment of an interest in an associate (Note 22)	**(104,320)**	–
Excess of fair value of identifiable net assets acquired over the cost of business combinations	**–**	112,170
Gain from disposal of interests in an associate (including changes in fair value of convertible notes issued by the associate to the Group)	**–**	293,982
Others	**2,502**	6,317
	1,411,217	1,302,738

7. EXPENSE BY NATURE

	2008	2007
Cost of inventories (excluding depreciation)	**2,757,227**	2,685,412
Depreciation of property, plant and equipment (Note 16)	**98,614**	34,429
Employee benefit expense (including directors' emoluments)		
– Wages and salaries	**75,465**	55,225
– Other social welfare	**17,656**	15,748
	93,121	70,973
Operating lease payment in respect of buildings	**9,308**	8,245
Auditors' remuneration	**4,215**	4,938
Accounts receivable provision (Note 27)	**562**	10,934
Commission for sale of properties	**8,290**	54,871
Advertising costs	**51,169**	44,411
Miscellaneous tax	**31,538**	15,553
Transportation fee	**12,897**	8,550
Others	**105,081**	61,704
	3,172,022	3,000,020

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8. FINANCE INCOME

	2008	2007
Finance income		
Interest income on bank deposits	**16,727**	45,533
Net foreign exchange gain	**135,794**	141,628
	152,521	187,161

9. FINANCE COSTS

	2008	2007
Interest expense:		
Interest on bank borrowings and other borrowings – wholly repayable within five years	**298,908**	197,578
Interest on the Guaranteed Notes – wholly repayable within five years (Note 32)	**140,915**	–
Interest on the Guaranteed Notes – wholly repayable beyond five years (Note 32)	**–**	140,724
Interest on CB2 – wholly repayable within five years (Note 33)	**4,220**	7,349
Interest on CB3 – wholly repayable within five years (Note 33)	**100**	–
	444,143	345,651
Less: Amount capitalised in properties held or under development for sale, properties under development for long-term investment and construction in progress	**(433,080)**	(205,546)
Finance costs	**11,063**	140,105

During the year ended 31 December 2008, the weighted average interest capitalisation rate was 8.02% (2007: 7.56%).

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10. DIRECTORS' REMUNERATION

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

	2008			
Name of director	**Salaries**	**Fees**	**Other benefits**	**Total**
Executive directors				
– Mr. Shi Jian	2,000	–	–	2,000
– Mr. Li Yao Min	1,500	–	–	1,500
– Mr. Yu Hai Sheng	2,500	–	–	2,500
– Mr. Jiang Xu Dong	2,000	–	–	2,000
– Mr. Lee Wai Man	2,200	–	–	2,200
Non-executive directors				
– Mr. Cheung Wing Yui	–	330	–	330
– Mr. Jin Bing Rong	–	315	–	315
Independent non-executive directors				
– Mr. Yeung Kwok Wing	–	165	–	165
– Mr. Geng Yu Xiu (resigned in 2008)	–	60	–	60
– Mr. E Hock Yap	–	220	–	220
– Mr. Jiang Xie Fu (appointed in 2008)	–	112	–	112
Total	10,200	1,202	–	11,402

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10. DIRECTORS' REMUNERATION (continued)

	2007			
Name of director	Salaries	Fees	Other benefits	Total
Executive directors				
– Mr. Shi Jian	2,000	–	–	2,000
– Mr. Li Yao Min	1,550	–	–	1,550
– Mr. Yu Hai Sheng	2,000	–	–	2,000
– Mr. Jiang Xu Dong	1,280	–	–	1,280
– Mr. Lee Wai Man	1,111	–	–	1,111
– Mr. Qian Reng Hui (resigned in 2007)	375	–	–	375
Non-executive directors				
– Mr. Cheung Wing Yui	–	300	–	300
– Mr. Jin Bing Rong	–	225	–	225
– Mr. Wang Ru Li (resigned in 2007)	–	–	–	–
Independent non-executive directors				
– Mr. Yeung Kwok Wing	–	150	–	150
– Mr. Geng Yu Xiu	–	120	–	120
– Mr. E Hock Yap	–	200	–	200
– The Lord Killearn (resigned in 2007)	–	50	–	50
– Mr. Sang Rong Lin (resigned in 2007)	–	–	–	–
Total	8,316	1,045	–	9,361

No discretionary bonuses, inducement fees, employer's contribution to pension schemes or compensation for loss of office as directors were given to any of the directors during the years ended 31 December 2008 and 2007.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2008 and 2007.

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11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2007: five) directors, details of whose remuneration are set out in Note 10 above. Details of the remuneration of the remaining one non-director, highest paid employee for 2008 are as follows:

	2008	2007
Salaries, housing allowances, other allowances and benefits in kind	2,000	–
	2,000	–

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

	2008	2007
Nil – HK$1,000,000	–	–
HK$1,000,001 – HK$1,500,000	–	–
HK$1,500,001 – HK$2,000,000	1	–

12. TAX

	2008	2007
Current taxation		
– Mainland China enterprise income taxation (a)	258,230	256,832
– Mainland China land appreciation taxation (c)	31,827	333,903
	290,057	590,735
Deferred taxation (Note 34)		
– Mainland China enterprise income taxation	329,456	51,225
– Mainland China land appreciation taxation	91,161	–
– Mainland China withholding taxation (d)	182,797	–
	603,414	51,225
Total tax charge for the year	893,471	641,960

12. TAX (continued)

(a) Mainland China enterprise income tax

The Group conducts a significant portion of its business in Mainland China and the applicable enterprise income tax ("EIT") rate of its subsidiaries operating in Mainland China is generally 25%.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of transaction and revenue recognition, based on certain estimations. There was no outstanding balance of prepaid income tax as of 31 December 2008 (2007: approximately HK$9.5 million).

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2016. If taxes on profits assessable elsewhere, it would be calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

(c) Mainland China land appreciation tax ("LAT")

LAT is incurred upon transfer of property ownership and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures.

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transaction and revenue recognition, generally based on 1% to 2% on advances received. Prepaid LAT had been recorded in "prepaid income tax" with an amount of approximately HK$5.3 million as of 31 December 2008 (2007: approximately HK$14.3 million).

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12. TAX (continued)

(d) Withholding tax

Pursuant to the new PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from withholding tax.

A reconciliation of the tax expense applicable to profit before tax using the Group's general taxation rate of 25% (2007: 33%) to the tax expense at the Group's effective tax rate is as follows:

	2008	2007
Profit before tax	**1,677,332**	1,670,168
Tax at the applicable tax rate of 25% (2007: 33%)	**419,333**	551,155
Effect on opening deferred tax due to change in tax rate	**–**	(152,846)
Lower tax rates for some subsidiaries	**–**	(1,035)
Tax impact of results attributable to associates	**110,797**	10,237
Impact of land appreciation tax (which is itself classified as part of income tax) as it is deductible for income tax purposes	**(30,747)**	(110,188)
Income not subject to tax	**(9,007)**	(262,149)
Tax losses not recognised	**97,310**	124,429
Effect of withholding tax at 5% or 10% on the distributable profits of the Group's PRC subsidiaries	**182,797**	–
Tax in relation to transfer of investment properties within the Group	**–**	148,454
Mainland China enterprise income tax	**770,483**	308,057
Mainland China land appreciation taxation (including deferred land appreciation taxation)	**122,988**	333,903
Total tax expense for the year at the Group's effective tax rate	**893,471**	641,960

The share of tax attributable to associates amounting to HK$54.7 million (2007: HK$10.8 million) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

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13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of HK$4,069 thousand (2007: HK$330,987 thousand) which has been dealt with in the financial statements of the Company (Note 30(b)).

14. DIVIDENDS

	2008	2007
Proposed final dividend - nil (2007: HK$0.035) per ordinary share	–	96,000

The dividends paid during the years ended 2008 and 2007 were approximately HK$49,050,875 (HK$0.035 per share) and approximately HK$19,445,536 (HK$0.020 per share) respectively. No final dividend was proposed by the Board in respect of financial year 2008 through the date when the financial statements were approved and authorised for issue.

Pursuant to a resolution passed at the general meeting on 21 May 2008, the Company offered to its shareholders scrip dividends equivalent to HK$0.035 per ordinary share of HK$0.10 with an alternative for its shareholders to elect to receive the dividends in cash in lieu of all or part of their scrip dividend entitlements. As of 16 June 2008 (the date that the shareholders were required to elect alternatives), shareholders holding a total of 1,401,453,570 shares elected for cash dividend and cash dividends of approximately HK$49,050,875 were paid, while shareholders holding a total of 1,336,390,551 shares elected for scrip dividends, resulting in 46,037,076 shares being allotted at the price of HK$1.016 per share (Note 29).

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15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, assuming conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: convertible bonds (Note 33). The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense and fair value gain less any tax effect.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2008	2007
Profit attributable to ordinary equity holders of the Parent, used in the basic earnings per share calculation	**247,936**	1,019,040
Fair value gain on the derivative component of the convertible bonds, net of tax (Note 33)	**(7,240)**	(12,458)
Interest expenses recognised on the host debt component of convertible bonds, net of tax (Note 9)	**100**	7,349
Profit attributable to ordinary equity holders of the parent before the above impact arising from convertible bonds	**240,796**	1,013,931

	Number of shares	
	2008	2007
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (thousands)	**2,783,881**	2,372,406
Effect of dilution – weighted average number of ordinary shares: Convertible bonds (thousands)	**2,466**	52,926
	2,786,347	2,425,332

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16. PROPERTY, PLANT AND EQUIPMENT

Group

	2008					
	Buildings	Leasehold improvement	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
Beginning of year	752,607	2,650	537,405	39,980	151,240	1,483,882
Additions	57,083	–	8,768	6,661	215,623	288,135
Transfer	224,918	–	149,883	–	(374,801)	–
Disposals	–	–	(3,646)	(6,508)	–	(10,154)
Exchange realignment	49,004	163	37,405	2,905	7,938	97,415
End of year	1,083,612	2,813	729,815	43,038	–	1,859,278
Accumulated depreciation and impairment						
Beginning of year	9,878	943	26,899	16,206	–	53,926
Depreciation charge	24,062	153	68,152	6,247	–	98,614
Impairment	25,730	–	13,097	–	–	38,827
Disposals	–	–	(1,203)	(3,755)	–	(4,958)
Exchange realignment	822	59	2,796	923	–	4,600
End of year	60,492	1,155	109,741	19,621	–	191,009
Net carrying amount						
Balance, end of year	1,023,120	1,658	620,074	23,417	–	1,668,269
Balance, beginning of year	742,729	1,707	510,506	23,774	151,240	1,429,956

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16. PROPERTY, PLANT AND EQUIPMENT (continued)

2007	Buildings	Leasehold improvement	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost						
Beginning of year	–	1,779	8,627	32,993	1,119,343	1,162,742
Acquisition of subsidiaries	–	1,549	2,734	8,002	–	12,285
Additions	–	–	15,361	4,853	213,066	233,280
Transfer	719,124	–	489,752	–	(1,208,876)	–
Disposals	–	(829)	(2,552)	(8,960)	–	(12,341)
Exchange realignment	33,483	151	23,483	3,092	27,707	87,916
End of year	752,607	2,650	537,405	39,980	151,240	1,483,882
Accumulated depreciation						
Beginning of year	–	1,651	5,230	13,833	–	20,714
Acquisition of subsidiaries	–	–	2,304	293	–	2,597
Depreciation charge	9,516	31	19,330	5,552	–	34,429
Disposals	–	(829)	(933)	(4,752)	–	(6,514)
Exchange realignment	362	90	968	1,280	–	2,700
End of year	9,878	943	26,899	16,206	–	53,926
Net carrying amount						
Balance, end of year	742,729	1,707	510,506	23,774	151,240	1,429,956
Balance, beginning of year	–	128	3,397	19,160	1,119,343	1,142,028

Depreciation expenses of approximately HK$87,760 thousand (2007: approximately HK$28,517 thousand) had been expensed in cost of goods sold, approximately HK$1,418 thousand (2007: approximately HK$41 thousand) in selling and marketing costs and approximately HK$9,436 thousand (2007: approximately HK$5,871 thousand) in administrative expenses.

During the year ended 31 December 2008, the building that was transferred from construction in progress represents a 23-storey hotel building known as “Shenyang Rich Gate Lexington Hotel”. The hotel commenced operation during the year ended 31 December 2008. The hotel stands on part of one land parcel with a lease period of 40 years and comprises about 620 rooms plus two floors of restaurants. During the year ended 31 December 2007, the building that was transferred from construction in progress represents a 50-storey hotel building known as “Skyway Hotel”, (formerly known as “Oasis Skyway Garden Hotel”). The hotel commenced operation during the year ended 31 December 2007. The hotel stands on two adjacent land parcels with a lease period of 50 years and comprises about 654 rooms plus two floors of restaurants.

As of 31 December 2008 and 2007, the buildings were pledged as collateral for the Group’s bank loans and facilities (Note 31).

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16. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment of property, plant and equipment

Skyway Hotel and Shenyang Rich Gate Lexington Hotel held by the Group commenced operations in May 2007 and July 2008, respectively. Due to the current economic downturn and operating losses in hotel operations in 2008, the Group performed an impairment assessment on the property, plant and equipment used in the hotel operations, and as a result, an impairment loss of HK$38,827 thousand, being the excess of their carrying amount over their recoverable amount, was recognised in the Group's financial statements for the year ended 31 December 2008. The recoverable amount was determined based on value in use and was determined at the estimated future cash flows discounted at a pre-tax rate of 11% per annum.

Company

	2008		
	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Total
Cost			
Beginning of year	1,047	646	1,693
Exchange realignment	55	3	58
End of year	1,102	649	1,751
Accumulated depreciation			
Beginning of year	943	478	1,421
Depreciation charge	–	36	36
Exchange realignment	8	4	12
End of year	951	518	1,469
Net carrying amount			
Balance, end of year	151	131	282
Balance, beginning of year	104	168	272

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16. PROPERTY, PLANT AND EQUIPMENT (continued)

	2007			
	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Total
Cost				
Beginning of year	976	653	3,452	5,081
Additions	–	109	–	109
Disposals	–	(162)	(3,568)	(3,730)
Exchange realignment	71	46	116	233
End of year	1,047	646	–	1,693
Accumulated depreciation				
Beginning of year	848	570	1,505	2,923
Depreciation charge	31	34	–	65
Disposals	–	(162)	(1,555)	(1,717)
Exchange realignment	64	36	50	150
End of year	943	478	–	1,421
Net carrying amount				
Balance, end of year	104	168	–	272
Balance, beginning of year	128	83	1,947	2,158

17. INVESTMENT PROPERTIES

Group

	2008	2007
At beginning of year	**1,842,375**	765,328
Transfer from properties under development for long-term investment (Note 19)	**1,028,699**	–
Transfer from properties held or under development for sale	**593,571**	–
Transfer from prepaid land lease payments (Note 18)	**246,126**	–
Fair value gain (Note 6)	**1,394,587**	942,269
Additions	**–**	41,553
Exchange realignment	**142,715**	93,225
At end of year	**5,248,073**	1,842,375

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17. INVESTMENT PROPERTIES (continued)

The investment properties as at 31 December 2008 mainly represent three properties as follows:

A 3-storey shopping mall at the town area of Shanghai City with a fair value of approximately HK$1,129 million. The periods of operating leases entered into for the shopping mall range from 1 to 7 years.

Portions of 8 blocks of multi-storey shopping and office buildings at the town area of Shanghai City, with a total fair value of approximately HK$1,210 million. The periods of operating leases entered into range from 1 to 12 years.

A 7-storey shopping mall at the town area of Shenyang City with a total fair value of approximately HK$2,870 million. The periods of operating leases entered into for the shopping mall range from 1 to 15 years.

The valuations of investment properties are performed by management at each reporting date and reviewed at least annually by an external valuer. As at 31 December 2008, the investment properties were revalued by Jones Lang LaSalle Sallmanns Limited, an independent professionally qualified valuer, using discounted cash flow projections or Income Approach.

The Group's interests in investment properties at their net book values are analysed as follows:

	2008	2007
In the PRC, held on:		
Leases of over 50 years	**2,361,125**	1,826,356
Leases of between 10 and 50 years	**2,886,948**	16,019
	5,248,073	1,842,375

The investment properties are pledged for bank borrowings as disclosed in Note 31.

The following amounts relating to the investment properties have been recognised in the consolidated income statement:

	2008	2007
Rental income (Note 5)	**72,939**	42,156
Direct operating expenses arising from investment properties that generate rental income	**24,873**	–

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18. PREPAID LAND LEASE PAYMENTS

Group

	2008	2007
In the PRC, held on:		
– Leases of over 50 years	**3,505,965**	3,224,599
– Leases of between 10 and 50 years	**4,034,213**	3,438,411
	7,540,178	6,663,010

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2008	2007
At beginning of year	**6,663,010**	2,833,618
Additions	**1,032,067**	783,413
Acquisition of subsidiaries (Note 44)	**199,439**	3,749,796
Disposals with the sale of completed properties	**(327,373)**	(557,048)
Amortisation capitalised as properties under development	**(199,426)**	(61,589)
Transfer to investment properties (Note 17)	**(246,126)**	–
Disposal of a subsidiary	**–**	(469,886)
Exchange realignment	**418,587**	384,706
At end of year	**7,540,178**	6,663,010
Analysed as:		
Non-current: In relation to investment properties and properties under development for long-term investment	**885,914**	1,108,527
Current: In relation to properties held or under development for sale	**6,654,264**	5,554,483
	7,540,178	6,663,010

As of 31 December 2008 and 2007, the Group's leasehold land of approximately HK$2,263 million had been pledged as collateral for the Group's bank loans and facilities (see Note 31 for details).

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19. PROPERTIES UNDER DEVELOPMENT FOR LONG-TERM INVESTMENT

Group

	2008	2007
At 1 January	880,124	277,325
Additions (including capitalisation of interest and amortisation of leasehold land)	102,377	555,695
Transfer to investment properties (Note 17)	(1,028,699)	–
Exchange realignment	46,198	47,104
At 31 December	–	880,124

As at 31 December 2007, properties under development for long-term investment were located in Shenyang, the PRC.

20. GOODWILL

Group

	2008	2007
Cost		
At beginning of year	422,627	75,512
Acquisition of subsidiaries	–	330,467
Exchange realignment	24,868	16,648
At end of year	447,495	422,627
Accumulated impairment		
At 1 January and 31 December	–	–
Net carrying amount		
Balance, end of year	447,495	422,627
Balance, beginning of year	422,627	75,512

Impairment testing of goodwill

Goodwill acquired through certain business combinations as been allocated to two major cash generating-units, the Albany Oasis Garden and the Qinhai Oasis Garden property development projects, for impairment testing;

The two cash-generating units are parcels of lands with properties currently under development and located in the city of Shengyang and Shanghai, respectively, and will be available for sale in the forthcoming two to nine years.

20. GOODWILL (continued)

Impairment testing of goodwill (continued)

The recoverable amounts for both the Albany Oasis Garden and Qinhai Oasis Garden property development projects cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on forecasts covering a nine-year and five-year period, respectively, approved by management. The pre-tax discount rate applied to the cash flow projections is 16% and 16.20%, respectively, and the cash flows period beyond the five-year period is consistent with the real estate industry market indices. Professional valuers were engaged to assist the Group in determining the estimated value in use.

The carrying amount of goodwill allocated to each of the two major cash-generating units is as follows:

	2008	2007
Property development project Qinhai Oasis Garden	**86,026**	82,196
Property development project Albany Oasis Garden	**359,058**	338,160

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

– Selling prices – The market prices of the comparable properties nearby

– Construction costs – The estimated costs including infrastructure costs to complete the property development projects

– Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

– Price inflation – The basis used to determine the value assigned to selling price inflation is the forecast price indices of 3%-4%, which is consistent with industry trend.

The values assigned to key assumptions are based on historical experiences, current market condition, approved budgets and forecasts and consistent with external information sources.

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21. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries

Company

	2008	2007
Unlisted equity interests, at cost	**4,565,875**	4,260,440

The following is a list of the principal subsidiaries as at 31 December 2008:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2008	2007	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Xin Dong Industry Co., Ltd. ("Xin Dong")	PRC 28 May 1993	**98%**	98%	US$3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Real Estate Property Management Co., Ltd. ("Shangzhi Property Management")	PRC 1 September 1995	**98.57%**	98.57%	RMB5,000,000	RMB5,000,000	Property management
Shanghai Oasis Garden Real Estate Co., Ltd. ("Oasis Garden")	PRC 29 September 1998	**98.75%**	98.75%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd. ("Wingo Infrastructure")	PRC 4 August 1999	**98.96%**	98.96%	US$20,000,000	US$20,000,000	Development of technology for housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd. ("Zhufu")	PRC 11 August 2000	**50.36%**	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd. ("Anderson Shanghai")	British Virgin Islands ("BVI") 29 September 2001	**52%**	52%	US$100	US$100	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd. ("Anderson Fuxing")	PRC 16 April 2002	**51.48%**	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd. ("Hangtou Govern")	PRC 14 June 2002	**98%**	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd. ("Shanghai Jinwu")	PRC 12 August 2002	**96.80%**	96.80%	US$54,962,000	US$54,962,000	Property development
Shanghai Jinxin Real Estate Co., Ltd. (Formerly known as "Shanghai Qinhai Real Estate Co., Ltd"), ("Jinxin")	PRC 28 October 2002	**100%**	100%	RMB700,000,000	RMB700,000,000	Property development
Shanghai Skyway Hotel Co., Ltd. (Formerly known as "Shanghai Skyway Landis Hotel Co., Ltd"), ("Skyway")	PRC 9 December 2002	**56%**	56%	RMB200,000,000	RMB200,000,000	Hotel operation

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21. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2008	2007	Issued and paid-up capital	Authorised share capital	Principal activities
Shenyang Huarui Shiji Investment Development Limited ("Huarui Shiji Investment")	PRC 22 December 2004	**51%**	51%	US$52,500,000	US$52,500,000	Property development
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management")	PRC 30 October 2007	**51%**	51%	US$10,000,000	US$10,000,000	Property development
Shenyang Huajian Real Estate Co., Ltd. ("Shenyang Huajian")	PRC 3 November 2006	**100%**	100%	US$45,000,000	US$45,000,000	Property development
Shanghai Shuo Cheng Real Estate Co., Ltd. ("Shuo Cheng")	PRC 29 January 2003	**100%**	100%	RMB450,000,000	RMB450,000,000	Property development
Shanghai Liangshi Enterprises Ltd.("Liangshi") (i)	PRC 24 May 2006	**50.36%**	30.22%	RMB1,000,000	RMB1,000,000	Property development
Shanghai Mengshan Real Estate Co.,Ltd ("Mengshan") (ii)	PRC 12 June 2002	**–**	29.91%	RMB10,000,000	RMB10,000,000	Property development
Shanghai Shangzhi Real Estate Development Co., Ltd ("Shangzhi Real Estate") (ii)	PRC 16 October 2008	**49.86%**	–	RMB10,000,000	RMB10,000,000	Property development
Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao")	PRC 4 December 2000	**70%**	70%	RMB639,500,000	RMB750,000,000	Property development
Haikou Century Richgate Business Administration Co., Ltd ("Haikou Century") (iii)	PRC 25 June 2008	**79%**	–	RMB296,000,000	RMB320,000,000	Property development
Shenyang Lukang Real Estate Ltd.("Lukang") (iv)	PRC 13 July 2007	**100%**	–	US$5,000,000	US$5,000,000	Property development
Shenyang Richgate Lexington Hotel Management.Co., Ltd. ("Lexington Hotel") (v)	PRC 25 December 2007	**51%**	51%	US$120,000	US$120,000	Hotel operation

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

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in the BVI with nominal issued shares. All subsidiaries located in Mainland China are with limited liability entities.

21. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)

(a) Investments in subsidiaries (continued)

(i) On 2 January 2008, the Group, through its 50.36% owned subsidiary, Zhufu, acquired an additional 40% of the voting shares of Shanghai Liangshi Enterprises Ltd. ("Liangshi"), taking its ownership to 100%. Cash consideration of RMB400 thousand (HK$427 thousand) was paid. The book value of the net assets of Liangshi was approximately RMB1 million (HK$1,068 thousand), and the book value of the additional interest acquired was approximately RMB400 thousand (HK$427 thousand), which is the same as the consideration.

(ii) Shangzhi Real Estate was established as a limited liability company under the laws of the PRC on 16 October 2008 as a result of the De-merger of Mengshan, an indirect 29.91% owned subsidiary of the Group. On 1 July 2008, the owners of Mengshan passed a resolution to split Mengshan into two companies (the "De-merger") whereby certain portions of the assets, liabilities and RMB10 million of the paid-up capital of Mengshan are to be spinned off from Mengshan and injected into a newly set up company, i.e., Shangzhi Real Estate, which is held by the existing shareholders of Mengshan based on their existing proportion of equity interests in Mengshan of 99% and 1%, respectively. Upon completion of the De-merger, the paid up capital of Mengshan was reduced from RMB20 million to RMB10 million.

After completion of the De-merger in October 2008, although the Company's subsidiary still owns 99% equity interest in Mengshan, based on the terms of the agreements between the Group and the other shareholder of Mengshan, the Group has no voting rights (except for certain protective rights, i.e., the voting rights to make amendments on Articles of Association, liquidation of Mengshan and decision to increase registered or paid-up capital or reduce capital in Mengshan) and will not benefit from any profits or suffers losses arising from the operations of Mengshan. Thus, Mengshan is no longer a subsidiary of the Group.

(iii) Haikou Century was established under the laws of the PRC on 25 June 2008 with a registered capital of RMB320 million. Haikou Century is owned as to 79% by the Group.

(iv) During the year ended 31 December 2008, the Group acquired a 100% equity interest in Lukang. The details of the business combination are disclosed in Note 44.

(v) Lexington Hotel was established under the laws of the PRC on 25 December 2007 with a registered capital of US$120 thousand (approximately HK$930 thousand). Lexington Hotel is owned as to 51% by the Group.

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21. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (continued)

(b) Advances to subsidiaries

Company

All the advances to subsidiaries are unsecured and have no fixed repayment terms. Other than an advance amounting to approximately HK$73.7 million (2007: HK$74.1 million) to Anderson Shanghai which earns interest at 3% (2007: 3%) per annum and a US$4.5 million loan to Huarui Shiji Investment which earns interest at the prevailing London Interbank Offered Rate per annum, the advances to other subsidiaries were interest-free.

22. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES

(a) Interests in associates

Group

	2008	2007
Share of net assets	**634,722**	972,668
Less: Provision for impairment	**(104,320)**	–
	530,402	972,668
Market value of listed shares	**114,354**	1,662,728

China New Town Development Company Limited ("CNTD"), a company registered in the British Virgin Island and listed on the Singapore Stock Exchange, was a 32.03% owned associate of the Group as at 31 December 2008. CNTD incurred significant losses from operations during its fiscal year ended 31 December 2008, and the closing price of its shares on 31 December 2008 was SG$0.040 per share which was significantly lower than the carrying basis of its investment in CNTD held by the Group. Based on these indicators, the Group performed an impairment assessment on its investment in CNTD and recorded a HK$104 million impairment loss for the year ended 31 December 2008, being the excess of the Group's carrying amount over its recoverable amount (HK$449 million, the value in use based on estimated future cash flows discounted at a pre-tax rate of 17.6 per cent per annum).

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22. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (continued)

(a) Interests in associates (continued)

Particulars of the Group's associates as at 31 December 2008 are set out below:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2008	2007	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC 6 May 1997	**26%**	26%	RMB100,000,000	RMB100,000,000	Research and development of housing technology
Shanghai Orda Opto-electronics Science and Technology Co., Ltd. ("Orda")	PRC 23 March 2000	**23.52%**	23.52%	RMB11,000,000	RMB11,000,000	Development and sale of photo electron products, and computer hardware and software
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC 24 October 2000	**39.59%**	39.59%	RMB50,000,000	RMB50,000,000	Development and sale of netware and construction of broadband fibre projects
China New Town Development Company Limited ("CNTD") (i)	BVI 4 January 2006	**32.03%**	45.15%	RMB 2,115,240,000	10 billion shares (No par)	Land infrastructure development

(i) Change in ownership of equity interests in CNTD

During the period from March 2008 to May 2008, the Group purchased a total of 9,776,000 shares in CNTD from the Singapore Stock Exchange for a total consideration of approximately HK$14 million, which has increased the Group's equity interest in CNTD by 0.70%.

On 12 September 2008, CNTD issued 525 million shares, together with an equity grant of 80 million shares, as part of the consideration for the repurchase of its convertible bonds. The issuance of the new shares by CNTD has led to a dilution of interest held by the Group in CNTD from 45.85% to 32.03%. Thus, a loss on dilution of HK$41,616 thousand was recognised in the consolidated income statement (Note 6).

Subsequent to 31 December 2008, the Group entered into a share Subscription Agreement with CNTD in March 2009. Please refer to Note 48 for details.

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22. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (continued)

(a) Interests in associates (continued)

(ii) Extracts of financial information of principal associates

The following tables illustrate the financial information of the Group's associates as extracted from their financial statements:

(1) CNTD

	2008	2007
Assets and liabilities in the consolidated financial statements of CNTD and its subsidiaries		
Current assets	**4,515,600**	5,307,140
Non-current assets	**2,741,597**	2,834,912
Current liabilities	**(3,644,532)**	(4,658,793)
Non-current liabilities	**(1,258,617)**	(631,153)
Net assets	**2,354,048**	2,852,106
Attributable to:		
Minority interest	**407,190**	534,930
Equity holders of CNTD	**1,946,858**	2,317,176
	2,354,048	2,852,106
Results		
Revenue and other income	**652,192**	488,745
Total expense	**(1,925,953)**	(787,905)
Tax	**164,005**	19,312
Losses after tax	**(1,109,756)**	(279,848)
Attributable to:		
Minority interest	**(159,387)**	15,784
Equity holders	**(950,369)**	(295,632)
	(1,109,756)	(279,848)

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22. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (continued)

(a) Interests in associates (continued)

(ii) Extracts of financial information of principal associates (continued)

(2) Broadband

	2008	2007
Assets	**216,177**	240,616
Liabilities	**(89,407)**	(138,558)
Revenues	**139,285**	84,320
Profit	**26,996**	15,323

(b) Amounts due from associates

	Group		**Company**	
	2008	2007	**2008**	2007
Amounts due from:				
– CNTD	**132,438**	4,012	**132,438**	3,868
– Broadband	**6,530**	7,036	**–**	–
	138,968	11,048	**132,438**	3,868

On 17 August 2008, the Company and CNTD signed a letter of intent, pursuant to which the Company intended to acquire certain properties of CNTD for a consideration of RMB2 billion. The Company has paid US$16 million (equivalent to HK$123,998 thousand) as earnest money. However, the letter of intent will not be binding and the earnest money will be refunded to the Company, unless approvals for the Company to enter into the aforesaid assets purchase transaction is obtained from the shareholders of both the Company and CNTD by 30 June 2009 (that was recently extended to 30 June 2010) and registration of the change of ownership of the assets with the local land authorities is completed by that date.

The Group's account payable balances with associates are disclosed in Note 39 to the financial statements.

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23. OTHER NON-CURRENT ASSETS

	Group		Company	
	2008	2007	**2008**	2007
Prepayment for acquisition of a company (a)	**279,042**	–	**279,042**	–
Prepayment for acquisition of an additional equity interest in a subsidiary (b)	**–**	41,801	**–**	41,801
Equity interest in Meilan Huafu (c)	**–**	21,358	**–**	–
	279,042	63,159	**279,042**	41,801

(a) On 17 August 2008, the Company signed a letter of intent with a third party ("the Vendor") to acquire its 100% equity interest in a resort investment management company in Jiaxing with total consideration of US$50 million(HK$387 million). In connection with this transaction, the Group paid US$36 million (equivalent to HK$279 million) to the Vendor as earnest money. The earnest money was interest-free, and should be refunded to the Company if conditions for the completion of the acquisition are not met by 30 June 2009.

(b) On 29 June 2007, the Group as transferee and the minority shareholder of Zhufu as transferor (the "Transferor") entered into a transfer agreement (the "Transfer Agreement") pursuant to which the Group agreed to acquire and the Transferor agreed to sell a 49% interest in Zhufu. As of 31 December 2007, the Group had paid approximately HK$42 million in cash to the Transferor which was recorded under other non-current assets.

On 3 December 2008, the Group and the Transferor have agreed to abort the acquisition and entered into the Termination Agreement, owing to the non-fulfilment of the conditions required which include that all approvals and/or consent necessary or reasonably required by the Group. The transferor has refunded the advance payment of HK$42 million to the Group.

(c) As at 31 December 2007, the Group had a 10% interest in Shanghai Meilan Huafu Real Estate Co., Ltd. ("Meilan Huafu") amounting to HK$21 million, and this was recorded under other non-current assets in the balance sheet.

On 19 December 2008, the 10% interest was disposed of at a consideration of RMB179 million (equivalent to HK$200 million). Thereafter, the Group had no interest in Meilan Huafu, and a gain on disposal of approximately HK$178 million was recognised (Note 6) in the income statement for the year ended 31 December 2008.

31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

24. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

Group

	2008	2007
At cost		
– In Shanghai City, the PRC	2,631,348	3,238,752
– In Shenyang City, the PRC	276,324	870,771
– In Haikou City, the PRC	188,841	–
	3,096,513	4,109,523

As of 31 December 2008 and 2007, certain of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank loans and facilities (see Note 31 for details).

25. PREPAYMENTS AND OTHER CURRENT ASSETS

	Group		Company	
	2008	2007	2008	2007
Prepaid business tax	49,293	37,677	–	–
Prepayment for inventory purchased	14,141	33,252	–	–
Others	2,970	7,962	555	638
	66,404	78,891	555	638

26. OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
Amounts due from minority shareholders of subsidiaries	2,610	20,743	–	–
Earnest money paid to a third party for future cooperation (a)	–	202,905	–	–
Receivables in connection with acquisition of Konmen Investment Limited (b)	545,211	513,084	–	–
Reimbursable amounts from construction companies	19,514	18,507	–	–
Deposit paid to an agency to bid for a parcel of land (c)	–	170,867	–	–
Others	74,810	180,358	–	252
	642,145	1,106,464	–	252

26. OTHER RECEIVABLES (continued)

(a) On 12 December 2007, the Group signed a letter of intent with a third party company (the "Cooperator") whereby both parties agreed to jointly develop a project on the presumption that the Cooperator could obtain the right to develop the project from another party through a separate transaction. In connection with this cooperation, the Group paid earnest money amounting to RMB190 million to the Cooperator. The earnest money was interest-free. In March 2008, the earnest money was fully recovered as the Cooperator failed to obtain the right to develop the project.

(b) On 17 August 2007, SRE Investment Holding Limited (a substantial shareholder of the Company, or the "Vendor") and an independent third party (the "Original Shareholder") entered into an acquisition agreement (the "Vendor Acquisition Agreement"), pursuant to which the Vendor agreed to purchase, from the Original Shareholder, the entire issued share capital (the "Sale Share") of Konmen Investment Limited ("Konmen"), which in turn holds a 70% interest in Liaoning Gao Xiao, for a consideration of HK$1,600 million.

On the same date, the Vendor and a subsidiary of the Company (the "Purchaser") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser agreed to purchase the Sale Share from the Vendor for a consideration of HK$1,600 million. Pursuant to the Acquisition Agreement, the consideration was satisfied by the Company issuing 526,315,789 shares at a price of HK$3.04 per share. The market share price on the acquisition date was HK$3.36 per share.

On 15 November 2007, a supplemental agreement was entered into between the Vendor, the Company, the Purchaser, the Original Shareholder and Konmen.

Liaoning Gao Xiao is the developer of two properties (the "Properties") and also successfully won the bid in August 2007 for the acquisition of a parcel of land (the "Land") with a site area of approximately 153,696 square metres. Both the Properties and the Land are located at Shenyang City, the PRC. The total purchase cost of the Land including demolition and relocation costs that would be incurred is estimated at RMB1,192,680,960 (the "Land Purchase Cost"). Also, Liaoning Gao Xiao had assets (the "Assets") other than the Land and the unsold part of Properties, and other liabilities (the "Liabilities"), upon completion of the acquisition.

26. OTHER RECEIVABLES (continued)

(b) (continued)

According to the above agreements, the Original Shareholder agreed to pay Liaoning Gao Xiao the Land Purchase Cost, to bear the Liabilities and to reimburse Liaoning Gao Xiao the relevant amounts payable in respect of the Liabilities, to the extent that they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. If the amounts paid by the Original Shareholder is made to the Vendor, the Vendor agreed to transfer such amounts to the Group. The Original Shareholder is also entitled to receive the Assets from the Group through the Vendor, to the extent that such assets have not been paid to the Original Shareholder and/or the shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao.

Pursuant to the above agreements, the Vendor has also undertaken to pay Liaoning Gao Xiao the Land Purchase Cost, and to bear the Liabilities and to reimburse Liaoning Gao Xiao the relevant amounts payable in respect of the Liabilities, to the extent they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. In addition, in the event that Liaoning Gao Xiao fails to obtain the relevant land use right to the Land by 30 June 2009, the Vendor undertakes to pay the Company HK$1,600 million in cash on or before 30 December 2009.

In connection with the above, RMB515 million (HK$549 million) were received by the Group during 2007. As of 31 December 2008, the outstanding receivable in respect of this transaction amounted to RMB480 million (HK$545 million) (2007: RMB480 million (HK$513 million)).

(c) On 12 December 2007, the Group signed a letter of intent with a third party agency whereby the Group engaged the agency to bid for a parcel of land. In connection with this transaction, the Group paid a deposit amounting to HK$171 million to the agency. The deposit was interest-free. In February 2008, the deposit was fully recovered as the agency did not win the bid.

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

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27. ACCOUNTS RECEIVABLE

Group

	2008	2007
Accounts receivable	**28,085**	65,751
Less: Provision for doubtful accounts	**(9,920)**	(10,934)
	18,165	54,817

An aging analysis of accounts receivable is set out below:

	2008	2007
Within 1 year	**17,574**	53,238
1-2 years	**591**	1,579
Over 2 years – impaired	**9,920**	10,934
	28,085	65,751

The receivables that are aged within two years are neither past due nor impaired. They mainly relate to receivables from customers with reasonably good credit worthiness. There is no significant collateral or any other credit enhancement over these balances.

The movements in provision for impairment of accounts receivable are as follows:

	2008	2007
At beginning of year	**10,934**	1,977
Impairment losses recognised (Note 7)	**562**	10,934
Amount written off as uncollectible	**(2,237)**	(1,977)
Exchange adjustment	**661**	–
At end of year	**9,920**	10,934

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable of approximately HK$10 million (2007: approximately HK$11 million) with a carrying amount of HK$10 million (2007: HK$11 million). The individually impaired accounts receivable are outstanding for over two years and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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28. CASH AND BANK BALANCES

	Group		Company	
	2008	2007	**2008**	2007
Cash in hand	**1,557**	1,570	**14**	12
Demand and notice deposits	**843,618**	1,850,199	**170,673**	269,470
Time deposits with original maturity of no more than 3 months when acquired	**28,348**	–	**–**	–
Cash and cash equivalents	**873,523**	1,851,769	**170,687**	269,482
Time deposits with original maturity of over 3 months	**4,997**	–	**–**	–
Pledged bank deposits (a)	**181,426**	85,494	**–**	–
Restricted bank deposits (b)	**515,530**	2,096	**–**	–
Cash and bank balances	**1,575,476**	1,939,359	**170,687**	269,482

(a) As at 31 December 2008, bank deposits of approximately HK$181 million (2007: HK$85 million) were pledged as securities for the bank borrowings.

(b) Restricted bank deposits are funds designated for relocating exsiting residents under a development project.

The carrying amount of the cash and bank balance which are denominated in the following currencies are:

	Group		Company	
	2008	2007	**2008**	2007
	HK$ equivalent HK$'000	HK$ equivalent HK$'000	**HK$ equivalent HK$'000**	HK$ equivalent HK$'000
HK$	**169,601**	263,207	**168,655**	251,732
US$	**5,102**	34,398	**2,005**	17,750
RMB	**1,400,773**	1,641,754	**27**	–
	1,575,476	1,939,359	**170,687**	269,482

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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28. CASH AND BANK BALANCES (continued)

Demand deposits earn interest at floating rates based on daily bank deposit rates. Notice deposits are made for varying periods of between one day and seven days depending on the immediate cash requirements of the Group, and earn interest at the respective notice deposit rates. Time deposits within three months earn interest rate at respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

29. SHARE CAPITAL AND PREMIUM

Group and Company

		Amount		
	Number of shares (thousands)	Ordinary shares	Share premium	Total
At 1 January 2008	2,737,844	273,784	3,682,543	3,956,327
Issue of scrip dividends (b)	46,037	4,604	42,170	46,774
At 31 December 2008	2,783,881	278,388	3,724,713	4,003,101

		Amount		
	Number of shares (thousands)	Ordinary shares	Share premium	Total
At 1 January 2007	2,145,060	214,506	1,828,080	2,042,586
Issue of scrip dividends	9,061	906	22,742	23,648
Issue of shares upon conversion of convertible bonds	57,407	5,740	115,932	121,672
Issue of shares – acquisition of a subsidiary	526,316	52,632	1,715,789	1,768,421
At 31 December 2007	2,737,844	273,784	3,682,543	3,956,327

The total authorised number of ordinary shares is 8,000 million shares (2007: 4,000 million shares) with a par value of HK$0.10 per share (2007: HK$0.10 per share). All issued shares are fully paid.

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29. SHARE CAPITAL AND PREMIUM (continued)

(a) The Company's share option scheme was approved at a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion, at any time during the 10 years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and may not be less than the higher of (i) the average official closing price of the shares on the HKEx for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the shares on the HKEx on the relevant offer date.

No share options were outstanding as at 31 December 2008 and 2007.

(b) Pursuant to a resolution passed at the general meeting on 21 May 2008, the Company offered to its shareholders scrip dividends equivalent to HK$0.035 per ordinary share of HK$0.10 with an alternative for its shareholders to elect to receive the dividends in cash in lieu of all or part of their scrip dividend entitlements (see Note 14). As a result, the following additional shares were issued during the year.

	Number of new ordinary shares issued	Issue price per ordinary share	Issue date
In respect of final dividends for the year ended 31 December 2007	46,037,076	HK$1.016	16 June 2008

30. RESERVES

(a) Group

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

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory accounts. All statutory reserves are created for specific purposes.

Companies within the Group, which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the boards of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to the statutory surplus reserve, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profit, a company may make further contribution to the surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.

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30. RESERVES (continued)

(b) Company

	Share option reserve	Exchange fluctuation reserve	Retained profits/ (Accumulated losses)	Total
Balance at 1 January 2007	248	46,505	(190,320)	(143,567)
Exchange realignment	–	215,984	–	215,984
Total income and expense for the year recognised directly in equity	–	215,984	–	215,984
Profit for the year	–	–	330,987	330,987
Total income and expense for the year	–	215,984	330,987	546,971
Dividends relating to 2006				
– Cash dividends	–	–	(19,446)	(19,446)
– Scrip dividends (Note 29)	–	–	(23,648)	(23,648)
Balance at 31 December 2007	248	262,489	97,573	360,310

	Share option reserve	Exchange fluctuation reserve	Retained profits	Total
Balance at 1 January 2008	248	262,489	97,573	360,310
Exchange realignment	–	264,349	–	264,349
Total income and expense for the year recognised directly in equity	–	264,349	–	264,349
Profit for the year	–	–	4,069	4,069
Total income and expense for the year	–	264,349	4,069	268,418
Dividends relating to 2007				
– Cash dividends (Note 14)	–	–	(49,051)	(49,051)
– Scrip dividends (Note 29)	–	–	(46,774)	(46,774)
Balance at 31 December 2008	248	526,838	5,817	532,903

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31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group and Company

	Group		Company	
	2008	2007	**2008**	2007
Short-term bank borrowings				
– Secured	**453,566**	956,856	**–**	–
Current portion of long-term borrowings				
– Secured	**984,266**	149,532	**84,000**	84,000
– Unsecured	**57,808**	58,182	**58,620**	58,182
Total short-term bank borrowings and long-term borrowings current portion	**1,495,640**	1,164,570	**142,620**	142,182
Long-term bank borrowings				
– Secured	**2,902,150**	2,490,687	**130,275**	212,554
Other long-term borrowings				
– Unsecured	**142,964**	138,524	**86,590**	138,524
Total long-term borrowings	**3,045,114**	2,629,211	**216,865**	351,078
The long-term bank borrowings are repayable as follows:				
– Within 1 year	**1,042,074**	207,714	**142,620**	142,182
– Between 1 and 2 years	**1,360,568**	1,060,050	**128,413**	139,503
– Between 2 and 3 years	**1,447,717**	757,764	**74,027**	125,128
– Between 3 and 5 year	**236,829**	811,397	**14,425**	86,447
	4,087,188	2,836,925	**359,485**	493,260
Less: long-term borrowings, current portion	**(1,042,074)**	(207,714)	**(142,620)**	(142,182)
Long-term borrowings	**3,045,114**	2,629,211	**216,865**	351,078

Short-term bank borrowings-secured

As at 31 December 2008, a short-term bank loan of approximately HK$227 million (2007: HK$717 million) was secured by a pledge of the Group's leasehold land (Note 18) and certain bank deposits (Note 28).

As at 31 December 2008, a short-term bank loan of approximately HK$227 million (2007: HK$240 million) was secured by a joint guarantee provided by the Company and one subsidiary of the Group.

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31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Group and Company

Long-term bank borrowings-secured

As at 31 December 2008, long-term bank borrowings of approximately HK$3,886 million (2007: approximately HK$2,640 million) were secured by a pledge of the Group's leasehold land, together with hotel properties, investment properties, and properties held or under development for sale.

Other long-term borrowings-unsecured

As at 31 December 2008, unsecured long-term borrowings of approximately HK$201 million from external bankers (2007: approximately HK$197 million) in connection with the termination of the cross currency swaps, entered into during the year ended 31 December 2007.

Overall collateral arrangements for bank borrowings

As at 31 December 2008, bank deposits of approximately HK$181 million (2007: approximately HK$85 million) (Note 28), leasehold land of approximately HK$2,263 million (2007: approximately HK$649 million) (Note 18), investment properties of approximately HK$5,209 million (2007: approximately HK$1,806 million) (Note 17), and properties held or under development for sale of approximately HK$1,514 million (2007: approximately HK$2,244 million) (Note 24), together with hotel properties of approximately HK$1,456 million (2007: approximately HK$1,223 million) (Note 16), were mortgaged as collateral for the Group's short-term bank borrowings, long-term bank borrowings and banking facilities disclosed in the preceding paragraphs.

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

		2008			2007	
	HK$	**US$**	**RMB**	HK$	US$	RMB
Short-term bank borrowings	**–**	**–**	**5.99%**	–	–	6.68%
Long-term bank borrowings	**4.27%**	**–**	**7.34%**	6.63%	–	7.55%
Other long-term borrowings	**–**	**6.01%**	**–**	–	6.01%	–

As bank loans are all borrowed at prevailing market interest rates, which would be adjusted from time to time in line with interest rate changes in the market, the carrying amounts of the bank loans therefore approximate their fair values.

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

	Group		**Company**	
	2008	2007	**2008**	2007
HK$	**501,678**	593,658	**214,275**	296,555
US$	**145,210**	196,706	**145,210**	196,705
RMB	**3,893,866**	3,003,417	**–**	–
	4,540,754	3,793,781	**359,485**	493,260

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31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Overall collateral arrangements for bank borrowings (continued)

The Group had the following undrawn credit facilities as of the balance sheet date:

	2008	2007
Floating rate loan facilities		
– expiring within 1 year	39,687	116,403
– expiring beyond 1 year	–	154,558
	39,687	270,961

During the year ended 31 December 2008, the Group has entered into the Strategic Cooperation Framework Agreements with certain banks with total amounts of RMB7 billion (equivalently HK$7.94 billion), and therefore, the Group will be entitled to apply for borrowings on the condition that proper collaterals (land use rights, properties, etc) are available to be pledged as collateral.

32. GUARANTEED NOTES

Group and Company

	US$'000
Face value of Guaranteed Notes	200,000
Less: issuance expense	(6,841)
Fair value on initial recognition	193,159

	2008		2007	
		HK$ equivalent		HK$ equivalent
	US$'000	HK$'000	US$'000	HK$'000
At beginning of year	197,595	1,540,928	196,816	1,535,167
Foreign exchange gain	–	(9,622)	–	(319)
Add: interest expense (Note 9)	18,103	140,915	18,029	140,724
Less: payment of interest	(17,250)	(134,274)	(17,250)	(134,644)
At end of year	198,448	1,537,947	197,595	1,540,928

On 24 April 2006, the Company issued guaranteed notes maturing on 24 April 2013 (the "Maturity Date"), with an aggregate principal amount of US$ 200 million and a fixed interest rate of 8.625% per annum (the "Guaranteed Notes"). The Guaranteed Notes are guaranteed by all investment holding subsidiaries (except Anderson Shanghai) which are not incorporated in the PRC.

32. GUARANTEED NOTES (continued)

Interests of the Guaranteed Notes are payable semi-annually in arrears on 24 April and 24 October in each year commencing from 24 October 2006. With regard to the principal amount, the Company has the following redemption options:

a) prior to 24 April 2009, redeem on one or more occasions up to 35% of the aggregate principal amount of the Guaranteed Notes originally issued, at a redemption price of 108.625% of the principal amount, plus accrued and unpaid interest to the redemption date, or

b) at any time or from time to time prior to the Maturity Date, redeem all or part of the Guaranteed Notes at a redemption price equal to 100% of the principal amount thereof plus an applicable premium plus accrued and unpaid interest to such redemption date.

On 25 April 2006, the Guaranteed Notes were listed on the HKEx.

Interest expense on the Guaranteed Notes is calculated using the effective interest method by applying the effective interest rate of 9.30% per annum.

33. CONVERTIBLE BONDS – HOST DEBTS

Group and Company

On 9 November 2005, the Company issued convertible bonds ("CB2") maturing on 9 November 2010, in the aggregate principal amount of HK$386 million with an initial conversion price of HK$1.35 per ordinary share of the Company (subject to one time adjustment on 9 November 2006). The coupon interest rate of this bond is 3.5% per annum, which is paid in advance at the beginning of each year. In the event of conversion or early redemption, there would be no claw back of such prepayment of interest. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 110% of their principal amount on 9 November 2010. When the holders exercise the conversion rights of CB2, the Company has an option to pay an amount in cash that approximates to the market value of the shares that can be converted.

On 29 December 2008 (the "Issue Date"), the Company issued convertible bonds (the "CB3") maturing on 29 December 2013, in the aggregate principal amount of HK$165 million with an initial conversion price of HK$0.55 per ordinary share of the Company (subject to certain anti-dilutive adjustments). The coupon interest rate is 2.5% per annum, payable semi-annually in arrears on 29 June and 29 December in each year. The bondholders have the option to convert the CB3 to ordinary shares of the Company at any time after 60 days from the Issue Date to seven business days before its maturity (29 December 2013). The bondholders also have the option to require redemption at 120% of the principal amount (or an amount that will give holders a return of 15% per annum if certain events occur) at any time after three years from the Issue Date. The Company also has the option to redeem, at an amount that will give holders a return of 15% per annum, part of the CB3 before its maturity if the share price of the Company rises to a certain level. Unless previously redeemed, converted or purchased and cancelled, the CB3 will be redeemed at 135% of the principal amount (or an amount that will give holders a return of 15% per annum if certain events occur) on 29 December 2013.

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33. CONVERTIBLE BONDS – HOST DEBTS (continued)

Since the conversion options embedded in the CB2 and CB3 do not meet the definition of equity instruments of the Company, the entire convertible bonds are accounted for as financial liabilities, and separated into the host debt component and embedded derivative component. The embedded derivatives are accounted for as financial liabilities at fair value through profit or loss. The host debt component is initially recognised as the excess of proceeds over the amount initially recognised as the derivative component, net of transaction costs allocated to the host debt component, and are subsequently measured at amortised cost.

During the year ended 31 December 2008, the entire CB2 with a face value of HK$43.5 million were redeemed when the relevant holders exercised their early redemption option. There was no outstanding balance for the CB2 as at 31 December 2008.

For CB3, the face value of the outstanding bonds at 31 December 2008 amounted to HK$165 million.

As at 31 December 2008, the carrying amount of the CB3 was recorded under current liabilities, as the conversion option may be exercised, at the option of the holders, at any time after 60 days from the Issue Date.

The convertible bonds recognised on initial recognition are as follows:

	CB2	CB3	Total
Face value of convertible bonds issued	386,000	165,000	551,000
Issuance expense	(19,811)	(7,382)	(27,193)
Initial embedded derivative component	(93,906)	(95,710)	(189,616)
Host debt component on initial recognition upon issuance	272,283	61,908	334,191

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33. CONVERTIBLE BONDS – HOST DEBTS (continued)

The movements in the host debt component for the years ended 31 December 2008 and 2007 are as follows:

	2007
	CB2
Host debt component at 1 January 2007	89,994
Interest expense (Note 9)	7,349
Payment of interest	(1,522)
Amount converted to ordinary shares of the Company	(60,458)
Host debt component at 31 December 2007	35,363
Less: amount included under current liabilities	35,363
Amount included under non-current liabilities	–

		2008	
	CB2	**CB3**	**Total**
Host debt component at 1 January 2008	**35,363**	**–**	**35,363**
Newly issued host debts – CB3	**–**	**61,908**	**61,908**
Interest expense (Note 9)	**4,220**	**100**	**4,320**
Amount redeemed	**(39,583)**	**–**	**(39,583)**
Host debt component at 31 December 2008	**–**	**62,008**	**62,008**
Less: amount included under current liabilities	**–**	**62,008**	**62,008**
Amount included under non-current liabilities	**–**	**–**	**–**

Interest expenses on CB2 and CB3 are calculated using the effective interest method by applying the effective interest rates of 14.10% and 33.86% to the host debt component, respectively.

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33. CONVERTIBLE BONDS – HOST DEBTS (continued)

The fair value movements in the derivative financial liabilities embedded in the CB2 and CB3 for the years ended 31 December 2008 and 31 December 2007 are as follows:

	CB2	CB3	Total
Initial recognition upon issuance of bonds	93,906	95,710	189,616

		2008	
	CB2	**CB3**	**Total**
Embedded derivatives component at beginning of year	**19,604**	**–**	**19,604**
Newly issued	**–**	**95,710**	**95,710**
Fair value changes recognised in the income statement (Note 6)	**–**	**(7,240)**	**(7,240)**
Conversion to shares	**–**	**–**	**–**
Bond redemption	**(19,604)**	**–**	**(19,604)**
Embedded derivatives component at end of year	**–**	**88,470**	**88,470**

	2007
	CB2
Embedded derivatives component at beginning of year	93,276
Fair value changes recognised in the income statement	(12,458)
Conversion to shares	(61,214)
Embedded derivatives component at end of year	19,604

Those multiple embedded derivatives (holders' put options, issuer's call options and holders' conversion options etc., that are not independent of each other) in a single instrument that are not closely related to the host contract are treated as a single compound embedded derivative. They are presented as derivative financial liabilities (see Note 35).

As at 31 December 2008, the fair value of the derivative financial instruments was determined by Jones Lang LaSalle Sallmanns Appraisals Limited (2007: BMI Appraisals Limited) using generally accepted valuation methodologies, including, but not limited to, the binomial option pricing model.

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34. DEFERRED TAX

Group

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, to be levied by the same tax authority and the same taxable entity.

The gross movements in the deferred tax account are as follows:

	2008	2007
At beginning of year	**755,355**	275,047
Recognised in equity	**–**	(2,567)
Acquisition of subsidiaries	**–**	392,696
Recognised in the income statement (Note 12)	**603,414**	51,225
Exchange differences	**52,016**	38,954
At end of year	**1,410,785**	755,355

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

Deferred tax assets:

	Tax losses carried forward	**Tax losses carried forward arising from business combination**	**Total**
At 1 January 2007	11,055	4,476	15,531
Recognised in the income statement	(7,801)	(8,934)	(16,735)
Acquisition of subsidiaries	–	4,300	4,300
Exchange differences	493	158	651
At 31 December 2007	3,747	–	3,747
Recognised in the income statement	16,079	–	16,079
Exchange differences	(15)	–	(15)
At 31 December 2008	19,811	–	19,811

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34. DEFERRED TAX (continued)

Deferred tax liabilities:

	Fair value gains	Fair value gains arising from business combination	Withholding taxes	Others	Total
At 1 January 2007	195,044	79,072	–	16,462	290,578
Recognised in the income statement	–	(2,567)	–	–	(2,567)
Acquisition of subsidiaries	155,293	(122,330)	–	1,527	34,490
Dissolution of a subsidiary	–	396,996	–	–	396,996
Exchange differences	20,130	18,217	–	1,258	39,605
At 31 December 2007	370,467	369,388	–	19,247	759,102
Recognised in the income statement	365,529	(24,472)	182,797	95,639	619,493
Exchange differences	26,168	22,222	1,618	1,993	52,001
At 31 December 2008	762,164	367,138	184,415	116,879	1,430,596

Represented by:

	2008	2007
Deferred tax assets	**19,811**	–
Deferred tax liabilities	**(1,430,596)**	(755,355)
	(1,410,785)	(755,355)

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34. DEFERRED TAX (continued)

Deferred tax liabilities (continued):

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

Deferred tax assets have not been recognised in respect of the following items:

	2008	2007
Tax losses	467,226	132,121
Deductible temporary differences	95,282	–
	562,508	132,121

The above tax losses arising in Mainland China for offsetting against future taxable profit will expire in one to five years. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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

35. DERIVATIVE FINANCIAL LIABILITIES

Group and Company

	2008	2007
Embedded derivatives in CB2 (Note 33)	–	19,604
Embedded derivatives in CB3 (Note 33)	88,470	–
	88,470	19,604

The derivative financial liabilities are reported at their fair values.

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36. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

Group

	2008	2007
Advances received from the pre-sale of properties under development	**1,171,996**	2,392,775

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest-bearing. Business tax, generally calculated at a rate of 5% on advances received, are imposed by the tax authorities.

37. ACCOUNTS PAYABLE

Group

An aged analysis of accounts payable as at the balance sheet date, is as follows:

	2008	2007
Within 1 year	**1,329,720**	1,341,902
1-2 years	**27,657**	253,498
Over 2 years	**–**	802
	1,357,377	1,596,202

Accounts payable represent payables arising from property construction. Accounts payable with aging of more than one year generally represent retention monies held by the Group in connection with various property projects.

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38. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
Payables for prepaid land lease payments	**1,133,104**	1,104,510	**–**	–
Deposits received from customers and construction companies	**165,466**	333,834	**–**	–
Advance from related parties of a minority shareholder of a subsidiary	**229,034**	233,901	**–**	–
Business tax and surtaxes payable	**54,973**	132,274	**–**	–
Advances from third parties	**–**	74,452	**–**	–
Advance received for disposal of the remaining interest in Meilan Huafu (Note 23)	**–**	21,651	**–**	–
Interest payable to a former minority shareholder of Shuo Cheng, a subsidiary	**7,871**	23,166	**–**	–
Dividends payable to minority shareholders of subsidiaries	**10,191**	15,960	**–**	–
Relocation costs payable	**509,149**	–	**–**	–
Payable for the transaction cost of CB3	**15,500**	–	**15,500**	–
Others	**116,529**	133,163	**5,524**	4,297
	2,241,817	2,072,911	**21,024**	4,297

39. AMOUNTS DUE TO RELATED COMPANIES

	Group		Company	
	2008	2007	**2008**	2007
Amounts due to:				
– Broadband	**–**	256	**–**	–
– CNTD	**–**	13	**–**	–
– SRE Investment Holding Ltd.	**7,973**	–	**7,973**	–
– New Technology	**11,339**	–	**–**	–
– Others	**–**	108	**–**	–
	19,312	377	**7,973**	–

As at 31 December 2008, the above balances are unsecured, interest free and no fixed terms of repayment, and mainly arose from the related party transactions as disclosed in Note 45.

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40. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit for the year to cash generated from/(used in) operations:

	Notes	2008	2007
Profit before tax		**1,677,332**	1,670,168
Adjustments for:			
Depreciation of property, plant and equipment		**98,614**	34,429
Impairment of accounts receivable		**562**	10,934
Impairment of property, plant and equipment		**38,827**	–
Excess of fair value of identifiable assets over the cost of business combinations		**–**	(112,170)
Impairment of interest in an associate		**104,320**	–
(Gain)/loss on disposal of property, plant and equipment, net		**(542)**	175
Share of profits and losses of associates		**443,186**	31,021
Fair value loss on swap contracts		**–**	64,284
Fair value gain on derivatives embedded in convertible bonds		**(7,240)**	(12,458)
Gain on redemption of CB2		**(12,783)**	–
Fair value gain on investment properties		**(1,394,587)**	(942,269)
Other income		**–**	(969)
Gain on disposal of an equity interest in an invested company		**(178,326)**	–
(Gain)/loss from dilution of equity interest in CNTD		**41,616**	(293,982)
Transaction cost allocated to embedded derivatives of CB3		**10,187**	–
Finance income	8	**(152,521)**	(187,161)
Finance costs	9	**11,063**	140,105
Operating profit before working capital changes		**679,708**	402,107
(Increase)/decrease in restricted bank deposits		**(513,434)**	1,997
Increase in prepaid land lease payments		**(505,268)**	(224,105)
Decrease in properties held or under development for sale		**852,519**	1,096,415
Increase in inventories		**(6,213)**	(23,925)
Decrease in amounts due from associates		**7,973**	272,707
Earnest money paid to a third party for future cooperation		**–**	(202,905)
Decrease in prepayments and other current assets		**10,656**	62,896
Decrease in other receivables		**490,396**	14,811
Decrease/(increase) in accounts receivable		**36,089**	(44,325)
(Decrease)/increase in accounts payable		**(238,824)**	243,256
Decrease in other payables and accruals		**(104,247)**	(314,717)
Increase/(decrease) in amounts due to related parties		**7,040**	(1,087)
Decrease in advances received from the pre-sale of properties under development		**(1,220,779)**	(258,455)
Cash generated from/(used in) operations		**(504,384)**	1,024,670

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41. CONTINGENCIES

(a) In connection with the sale of properties, Shanghai Jinwu, a subsidiary, provided guarantees to banks prior to the buyers providing title documents to their banks for mortgage purposes. As at 31 December 2008, such outstanding guarantees amounted to approximately HK$15 million (2007: nil).

(b) As at 31 December 2008, Wingo Infrastructure provided a guarantee for 40% of Broadband's HK$10.2 million bank borrowing. The outstanding guarantee amounted to approximately HK$4,082 thousand as at 31 December 2008.

(c) Under the relevant PRC Laws, Shangzhi Real Estate is jointly liable for all outstanding debts and amounts payable to creditors of Mengshan that were in existence prior to the De-merger (Note 21(a)(ii)). Such debts/amounts owing to creditors of Mengshan that Shangzhi Real Estate is jointly liable for as at 31 December 2008 amounted to approximately HK$2.49 million (RMB2.2 million).

42. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (Note 17) under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 15 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2008	2007
Within one year	**103,231**	280,040
In the second to fifth years, inclusive	**260,910**	1,074,607
After five years	**56,589**	18,793
	420,730	1,373,440

Certain operating lease agreements, entered into before 2008, were cancelled in 2008 after mutual agreements between the Group and the lessees.

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42. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from 3 to 5 years, and those for office equipment are for terms ranging between two and five years.

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

Group

	2008	2007
Within one year	7,589	5,967
In the second to fifth years, inclusive	5,931	8,743
	13,520	14,710

As at the balance sheet date, the Company did not have any significant operating lease agreements.

43. COMMITMENTS

In addition to the operating lease commitments detailed in Note 42(b) above, the Group had the following capital commitments at the balance sheet date:

	Group		Company	
	2008	2007	2008	2007
Contracted, but not provided for				
Properties under development for long-term investment	–	11,175	–	–
Properties held or under development for sale	2,776,361	514,309	–	–
Cost consideration for potential business combination (Note 23(a))	108,498	–	108,498	–
Capital contributions payable to an associate	2,325	–	2,325	–
	2,887,184	525,484	110,823	–
Authorised, but not contracted for				
Properties under development for long-term investment	–	136,934	–	–
Properties held or under development for sale	1,740,937	192,462	–	–
	1,740,937	329,396	–	–
	4,628,121	854,880	110,823	–

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44. BUSINESS COMBINATIONS

On 31 March 2008, a subsidiary of the Company entered into an agreement to acquire a 100% equity interest in Lukang, a property development company located in Shenyang City, the PRC.

The assets and liabilities on the acquisition date of Lukang were as follows:

	Fair value at the date of acquisition	**Carrying amount**
Cash and cash equivalents	14,426	14,426
Prepaid land lease payment (Note 18)	199,439	199,439
Other receivables	24,254	24,254
Other payables	(196,909)	(196,909)
	41,210	41,210
Goodwill on acquisition	–	
	41,210	
Satisfied by:		
Cash	41,210	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

Cash consideration	(41,210)
Cash and cash equivalents acquired	14,426
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(26,784)

Since its acquisition, Lukang contributed a loss of HK$6 million to the consolidated profit for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK$3,739.9 million and HK$247.89 million, respectively.

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45. RELATED PARTY TRANSACTIONS

Group

In addition to related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties.

SRE Investment Holding Limited owns 44.84% of the Company's shares as at 31 December 2008. The remaining 55.16% of the shares are widely held.

(a) Related party transactions carried out during the year:

i) Sales to and purchases from associates

	2008	2007
Portion of Group's consideration for purchase of land plots (developed by CNTD) that CNTD is entitled to receive	249,482	330,451
Construction of infrastructure for an intelligent network for CNTD	2,011	5,857
Sales of goods to Broadband	5,457	3,592

During the year ended 31 December 2008, the Group purchased three parcels of land (2007: one parcel), developed by CNTD, through public bidding procedures conducted by the relevant government authorities for the purpose of property development. Total purchase considerations for such parcels of land were HK$356,395 thousand (2007: HK$452,675 thousand). As a result, according to the arrangements between government authorities and CNTD, CNTD is entitled to receive, from the government authorities, an agreed portion of the purchase considerations for such parcels of land.

ii) Loan guarantee

	2008	2007
Guarantee provided for loans borrowed by Broadband	4,082	–

During the year ended 31 December 2008, Wingo Infrastructure provided a guarantee for 40% of the HK$10 million term loan of Broadband.

iii) Compensation to key management and their close family members

	2008	2007
Salaries and other short-term employee benefits	14,736	8,316

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45. RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions carried out during the year (continued):

iv) Loans to a related party

	2008	2007
Loans to CNTD		
Beginning of the year	–	523
Interest received	–	(523)
End of the year	–	–

v) Acquisition of Konmen and Liaoning Gao Xiao from SRE Investment Holding Limited, and the related obligations and undertakings given, were disclosed in Note 26(b) above.

Except for items (v), the above transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

46. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets	2008	2007
Loans and receivables		
– Amounts due from associates	138,968	11,048
– Other receivables	642,145	1,106,464
– Accounts receivable	18,165	54,817
– Cash and bank balances	1,575,476	1,939,359
	2,374,754	3,111,688

Financial liabilities	2008	2007
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	4,540,754	3,793,781
– Guaranteed notes	1,537,947	1,540,928
– Convertible bonds-host debts	62,008	35,363
– Accounts payable	1,357,377	1,596,202
– Amount due to related companies	19,312	377
– Others	2,228,885	1,930,800
Financial liabilities at fair value through profit or loss		
– Derivative financial liabilities	88,470	19,604
	9,834,753	8,917,055

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46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets	**2008**	2007
Loans and receivables		
– Dividends receivable from subsidiaries	**390,573**	976,131
– Advances to subsidiaries	**1,073,459**	857,205
– Amounts due from associates	**132,438**	3,868
– Other receivables	**–**	252
– Cash and bank balances	**170,687**	269,482
	1,767,157	2,106,938

Financial liabilities	**2008**	2007
Financial liabilities at amortised cost		
– Interest-bearing bank and other borrowings	**359,485**	493,260
– Guaranteed notes	**1,537,947**	1,540,928
– Convertible bonds-host debts	**62,008**	35,363
– Other payables	**21,020**	4,294
Financial liabilities at fair value through profit or loss		
– Derivative financial liabilities	**88,470**	19,604
	2,068,930	2,093,449

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and trade payables, which arise directly from its operations.

The Group does not hold or issue derivative financial instruments for trading purposes, the derivative financial instruments issued or held by the Group are embedded derivatives in financial instruments used for financing. The Group's accounting policies in relation to derivatives are set out in Note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank and borrowings. The Group does not use derivative financial instruments to manage its interest rate risk. The interest rates and terms of repayments of the borrowings are disclosed in Note 31.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). The Group's equity is not affected, other than the consequential effect on retained profits (a component of the Group's equity) by the changes in profit before tax.

	2008 Impact on profit before tax	2007 Impact on profit before tax
Changes in variables – RMB interest rate		
+ 50 basis points	**(15,869)**	(9,955)
-50 basis points	**15,869**	9,955
Changes in variables – HK$ interest rate		
+ 50 basis points	**(2,530)**	(2,969)
-50 basis points	**2,530**	2,969

Price risk

Equity price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure relates to financial instruments (principally the embedded derivatives in the convertible bonds) whose values will fluctuate as a result of changes in the market prices of the Company's own shares.

The following table demonstrates the sensitivity to reasonably possible changes in the market prices of the Company's own shares, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of embedded derivatives in the convertible bonds). The Group's equity is not affected, other than the consequential effect on the retained profits (a component of the Group's equity) by changes in profit before tax as disclosed below.

Increase/(decrease) in market prices of the Company's own shares	**2008 Impact on profit before tax**	2007 Impact on profit before tax
+ 50% (2008)/+ 10% (2007)	**(50,396)**	(3,516)
-50% (2008)/-10% (2007)	**33,559**	3,299

31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Most of the Group's operating entities operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk with only limited exposure arising primarily with respect to cash at banks, guaranteed notes, convertible bonds etc. denominated in US dollar ("US$") or HK$.

The Renminbi is not a freely convertible currency. The conversion of the Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The following table demonstrates the sensitivity to reasonably possible changes in the US$ and the HK$ exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). The Group's equity is not affected, other than the consequential effect on retained profits (a component of the Group's equity) by the changes in profit before tax as disclosed below.

Changes in exchange rate of US$ against Renminbi	**2008 Impact on profit before tax**	2007 Impact on profit before tax
+ 5%	**(82,782)**	(86,123)
-5%	**82,782**	86,123

Changes in exchange rate of HK$ against Renminbi	**2008 Impact on profit before tax**	2007 Impact on profit before tax
+ 5%	**(18,773)**	(19,598)
-5%	**18,773**	19,598

Credit risk

Credit risk arises from cash at banks, accounts receivable, other receivables and amounts due from associates, the balances of which represent the maximum credit risk exposure of the Group. For the sale of developed properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks. Receivable balances are monitored on an on-going basis other than the significant receivables in Note 26, there is no significant concentration of credit risk within the Group as the debtors of the Group's receivables were widely dispersed and the majority of the Group's financial assets are cash at banks.

31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the assets subject to credit risk of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancement.

Financial assets	**2008**	2007
Loans and receivables		
– Amounts due from associates	**138,968**	11,048
– Other receivables	**642,145**	1,106,464
– Accounts receivable	**18,165**	54,817
– Cash at banks	**1,573,919**	1,937,789
Total credit risk exposure	**2,373,197**	3,110,118

Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to recognise the Group's future state of liquidity as is evident from the results of the Group's strategic and planning process. A 12-month forecast of fund requirements is updated monthly for the latest developments.

Other than properties developed for sale, the Group also develops and holds properties for long-term operation, such as hotel properties and investment properties. Such long-term assets have constituted an increasing proportion of total assets in recent years, which brings liquidity risk to the Group. In order to mitigate the liquidity risk, the Group adjusts its financing strategy to get more long-term borrowings and increase share capital, through the issuance of long-term guaranteed notes, convertible bonds, as well as new shares.

The Group has developed strategic relationship with certain major state-owned banks that will normally provide financing to the Group when approval from the relevant government authorities for the commencement of a project is obtained. The Group also seek financing from overseas market through close cooperation with several world-wide bankers.

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

Group

	2008				
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Total**
Interest-bearing bank and other borrowings	**–**	**397,227**	**1,337,909**	**3,261,155**	**4,996,291**
Guaranteed notes	**–**	**–**	**133,693**	**2,017,987**	**2,151,680**
Convertible bonds	**–**	**–**	**4,125**	**206,250**	**210,375**
Accounts payable	**–**	**163,317**	**1,194,060**	**–**	**1,357,377**
Others	**13,663**	**112,832**	**1,771,714**	**295,420**	**2,193,629**
	13,663	**673,376**	**4,441,501**	**5,780,812**	**10,909,352**

31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2007					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	–	612,027	769,686	2,880,164	–	4,261,877
Guaranteed notes	–	–	134,550	538,200	1,627,275	2,300,025
Convertible bonds	45,240	–	–	–	–	45,240
Accounts payable	–	196,656	1,399,546	–	–	1,596,202
Others	38,984	993,191	899,002	–	–	1,931,177
	84,224	1,801,874	3,202,784	3,418,364	1,627,275	10,134,521

Company

	2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	–	44,025	106,917	234,285	–	385,227
Guaranteed notes	–	–	133,693	2,017,987	–	2,151,680
Convertible bonds	–	–	4,125	206,250	–	210,375
Others	7,973	21,020	–	–	–	28,993
	7,973	65,045	244,735	2,458,522	–	2,776,275

	2007					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	–	44,204	114,275	393,153	–	551,632
Guaranteed notes	–	–	134,550	538,200	1,627,275	2,300,025
Convertible bonds	45,240	–	–	–	–	45,240
Others	–	–	4,294	–	–	4,294
	45,240	44,204	253,119	931,353	1,627,275	2,901,191

31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. When an active market exists, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market or when current market prices are not available, fair value is determined using valuation techniques (Note 2.4).

The Group's financial assets mainly include cash and bank balances and receivables.

The Group's financial liabilities mainly include interest-bearing bank and other borrowings, guaranteed notes, convertible bonds (including embedded derivatives) and payables.

Except as indicated below, the fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and appropriate valuation models.

	2008		2007	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Guaranteed notes	**1,537,947**	**920,415**	1,540,928	1,365,000
Convertible bonds – host debts	**62,008**	**69,381**	35,363	36,598

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

As the Group is mainly engaged in the development of properties, it needs substantial amount of funds. The Group monitors capital using a gearing ratio, as defined by management for capital management purposes, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, host debt portion of convertible bonds, guaranteed notes, accounts payable, other payables and accruals, less cash and bank balances. Capital comprises all components of equity (i.e. share capital and premium, other reserves, retained profits, and minority interests). Such gearing ratiosas, as defined by management for capital management purposes, at the balance sheet dates were as follows:

31 December 2008 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

	2008	2007
Interest-bearing bank and other borrowings (Note 31)	**4,540,754**	3,793,781
Accounts payable (Note 37)	**1,357,377**	1,596,202
Other payables and accruals (Note 38)	**2,241,817**	2,072,911
Convertible bonds – host debts (Note 33)	**62,008**	35,363
Guaranteed Notes (Note 32)	**1,537,947**	1,540,928
Less: Cash and bank balances (Note 28)	**(1,575,476)**	(1,939,359)
Net debt	**8,164,427**	7,099,826
Equity attributable to equity holders of the parent	**6,472,585**	5,799,886
Minority interests	**1,400,776**	783,469
Capital	**7,873,361**	6,583,355
Capital and net debt	**16,037,788**	13,683,181
Gearing ratio	**51%**	52%

48. POST BALANCE SHEET EVENTS

Other than already disclosed elsewhere in the financial statements, the Group had the following significant post balance sheet events:

In March 2009, the Group entered into a Subscription Agreement with CNTD whereby, the Group will subscribe 680,000,000 new ordinary shares of CNTD (the "New Shares") at an issue price of SGD0.051 per share. The total consideration for the issue of New Shares amounting to SGD34,680,000 will be satisfied by (i) the capitalisation of outstanding interest-free loans of an aggregate amount of HK$28,600 thousand made by the Group to CNTD and (ii) the payment of the remaining aggregate issue price for the New Shares of SGD29,083,131. After the proposed placement is completed, the existing issued share capital of CNTD will be increased from 2,005,425,000 shares (excluding treasury shares) to 2,685,425,000 shares (excluding treasury shares) and the Group's equity interest in CNTD would increase from approximately 32.03% to approximately 49.24%. On 26 March 2009, the Singapore Exchange Ltd. (the "SGX") granted approval in-principle for the proposed listing and quotation of the New Shares on the Main Board of the SGX, subject to certain conditions, including the specific approval from CNTD's shareholders for the proposed placements and the issue of the New Shares to the Group.

49. COMPARATIVE FIGURES

Certain comparative figures to the current year's financial statements of the Group and the Company have been reclassified in accordance with disclosure requirements and also to conform with current year's presentation.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2009.