SOHO China Limited annual report 2007

contents

SOHO China at a glance

SOHO China is china's premier developer of iconic commercial and multi-use properties. beijing's prime areas, including its core, CBD is the focus of SOHO's development expertise. on 8 october 2007, SOHO China successfully listed on the main board of the stock exchange of hong kong (sehk: 410). the listing was noteworthy because it was the largest ipo in asia for a commercial real estate developer.

china's premier property brand

our chairman, pan shiyi, besides being the visionary and indefatigable leader of SOHO China is also a popular business leader. his personal blog has recorded over 41 million cumulative hits in the last two years, making him china's most read business blogger. our ceo, zhang xin, is recognized internationally as a developer of china's most architecturally innovative and esthetically compelling buildings. SOHO China's Commune by the Great Wall, awarded with a special prize at the 2002 la biennale di venezia, showcased her architectural and design acumen.

anticipating the rise of a strong, growing and increasingly sophisticated middle class in china, over the past ten years, chairman pan, ceo xin and key long-term members of the SOHO China family have together designed, implemented and calibrated SOHO China's unique business model – to build, sell and service high-quality, innovatively-designed and environmentally-friendly buildings to demanding investors.

a mark of our success is that the SOHO China brand has risen to become one of the top property brands in china. not surprisingly, along the way, SOHO China was awarded in 2006 by fortune magazine (china) as one of the "most admired companies" in china.

highly profitable track record

the focus of executing SOHO China's business model is on innovation, efficiency and painstaking attention to detail. coupled with our concentration of developing landmark properties in prime locations in central beijing this has enabled us to achieve exemplary financial results characterized by strong cash flow, gross margins exceeding 50% in the last two years, and high earnings growth.

prospects

2007 was a significant and meaningful year for SOHO China. with the successful listing of our company, we expanded our stakeholder base to include over 100,000 shareholders in asia, middle east, europe, united states, and australia. with their support, SOHO China raised hk$12.3 billion. with that infusion of capital and the continued support of all of our stakeholders, we expect to increase the number and velocity of projects we develop and thereby take SOHO China to the next level of excellence, aiming to become one of asia's premier developers of prime real estate properties.

our unique business model

'build and sell' commercial properties to investors
large pool of domestic capital seeking opportunities in beijing
after sales; continue to offer full service, leasing and promotion targeting sme's (small/medium enterprises)

our senior management team

	1 yan yan	2 su xin	3 li hong	4 xu yang	5 zhao guilin	6 sharon tong
group responsibility	executive director and cfo	executive director and coo	senior vice president	senior vice president	qualified accountant	director of finance
years with SOHO China	11	9	10	8	11	6
years of industry experience	15	10	18	11	21	14

operational and financial highlights 2007

- average selling price rose to 35,775 rmb/sq.m. in 2007, an increase of 28%
- contracted sales increased by 4.95% to rmb 4,027 mn for 2007 (2006: rmb 3,837 mn)
- margins continue to stay strong with gross margin at 55% and net margin at 28%

  *excluding Shangdu phase I

1

2

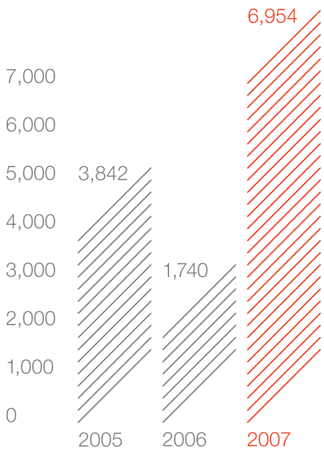
3

1
Chaowai SOHO
building exterior

2
Guanghualu SOHO
rendering

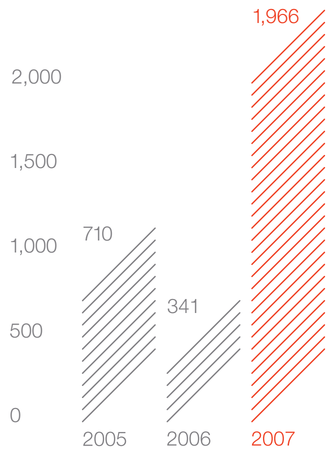
3
Beijing SOHO Residences
apartment living room

turnover rmb mn



+300%

net profit rmb mn



+477%

net margin	**28%** (2006: 20%)
cash and bank deposits rmb	**14,996mn**
earnings per share (year on year growth)	**+424%** (2006: 0.091rmb) (2007: 0.477rmb)
dividend per share rmb	**0.10**
equity attributable to shareholders of the company (year on year growth)	**+963%**

milestones

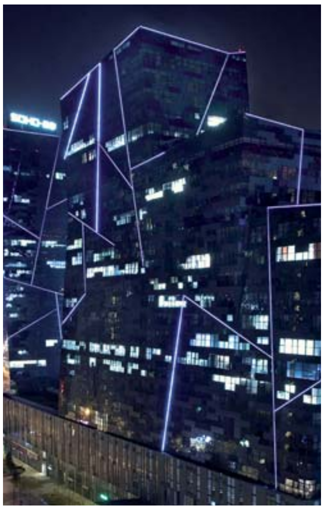
december 2005
Commune by the Great Wall is named “a new architecture wonder of china” by business week.

april 2006
Jianwai SOHO won 2006 business week/architectural record china awards for its innovative architecture.
this is the first time that business week/architectural brought this award into china.

june 2006
hosted by unesco, a week-long “together with migrants festival 2006” is launched at Jianwai SOHO. a series of programs aimed at offering greater care for migrant workers are held, including art exhibitions, poetry recitals and concerts.

june 2007
a grand ceremony marking the opening of sales at Guanghualu SOHO, it achieved the most successful pre-sale records, with nearly 100% sold in 88 days.

october 2007
SOHO China successfully listed on the main board of the stock exchange of hong kong.



october 2007
SOHO Shangdu is awarded "the most outstanding work of international architecture" by the royal australian institute of architects in the year 2007.

october, 2007
SOHO China is named "the most admired chinese company of 2007" by fortune china magazine again. only two chinese real estate developers win the honor.

december 2007
a grand ceremony marking the opening of sales of Beijing SOHO Residences is held.

chairman's statement
pan shiyi

dear shareholders of SOHO China,
the 2007 annual report of SOHO China Limited (the "company" or "SOHO China") before you now sums up our last year's performance at a glance. in between its lines, you can see the hard work of our entire staff. what cannot easily be seen, however – what lies beyond its numbers – is a clear and complete picture of our company's current and future development trajectory. this i wish to share with you now in this letter. from it, i hope you take away our assessment of the conditions impacting our industry, how that assessment guides our decisions, and how our decisions shape our results.

to provide some context, i am reminded of a lecture i attended recently of a famous anthropology professor. she charted human history and concluded that for stretches of hundreds of thousand of years, there was virtually no progress. then, boom, a renaissance. economic growth is much the same. we see it today in china, where the phenomenal growth of the present has sprung from decades of stagnation.

in china, we are witnessing the largest migration in human history. with this level of unprecedented urbanization come both opportunities and challenges. the growth rate of the size of the city and urban population has never been witnessed in history; this definitely brings lots of opportunities to the real estate industry.

in real estate, we benefit greatly from urbanization, but must make accommodations from time to time to ensure that it happens in a balanced, harmonious fashion. for as brisk as development has been, it still cannot keep pace with urban population growth. naturally, there have been some growing pains, with such issues as relocation, land requisition, housing prices, and energy shortages coming to the forefront. the chinese government has taken the matter in hand, remedying the situation by introducing measures that work to guarantee affordable housing. it has sought to cool off steel, cement, and coal prices by regulating construction through policy solutions, such as stricter bank financing controls which are now creating a bottleneck in the industry.

nevertheless, overall growth persists. the main drivers of the industry's upward trajectory are neither vanishing nor diminishing, but rather intensifying.

chairman's statement continued

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2


3


given such an environment, what is the development strategy of SOHO China? where is our room for development? how can we tackle the impact of policies and market volatility?

upon founding, SOHO China's first developed SOHO New Town, was a project of mostly residential units that really shook up beijing with the new mode of living it introduced. we quickly recognized that the market was overcrowded with developers who understood nothing but the construction and sale of residential units. they failed to comprehend the emerging need for spaces which synthesized both residential and commercial functions. projects like ours, which holistically combine areas for living, employment, shopping, leisure, and entertainment had not yet been envisioned in china. we were the first to introduce this new mode of living.

we saw the failures of the past – attempts at commercial construction – which produced nothing but abandoned sites, and knew we could do better. thus, three years ago, SOHO China shifted its focus to the development of commercial, mixed-use properties. the results, including our remarkable gross profit of over 50%, can be read in this report. moreover, by adjusting our strategy, we have managed to steer clear of the acute competition brought to the residential market through government policy and investments. for example, we need not worry about mandates that 70% of residential developments must be 90 square meters or less in size, or about the increase in down payments on second homes. i believe that any future macro-control policies affecting the residential market will have minimal negative impact on SOHO China.

1, 2 and 3
chairman and ceo

we are also different from other commercial developers in that we do not focus on the trophy tenant. while other developers and municipal governments seek to woo the global fortune 500, we maintain that china's economic growth comes from within. at SOHO China, we pride ourselves on serving the millions of small and medium enterprises ("sme's") that drive this great country. we feel that no longer should this huge community be neglected and cast aside. no longer should we find in the lobbies of residential buildings large banners stating "no commerce in residential units" under which staff of those medium and small companies pass with heads lowered.

our commitment to china's sme's runs deep in all of our projects, and our two earliest projects, SOHO New Town and Jianwai SOHO, are shining examples. the beauty of cultivating this community is that everyone benefits. the government receives a reliable source of tax revenue. investors purchasing flats enjoy substantial rentals and property appreciation. sme's make use of convenient office sites. thousands of young people gain new job opportunities.

our growth strategy has been targeted on central beijing, especially the central business district (cbd), where we have won a 39% market share by sales. by focusing on centrally located properties with great accessibility, we appeal to both commercial and residential tenants who want to be close to the action.

i should remark that at SOHO China, we do not claim to know everything about the future. we are not prophets. it just so happens that we have accurately identified a real social need and acted upon it swiftly yet prudently. we will continue to refine our unique business model through continual consultation ("action – review – reaction") and strive to adopt the model which is most dynamic and which most suits the pulse of the times. i picture SOHO China as a seed bursting with vitality, rooted in the fertile soil of the china market, ready to grow naturally and organically.

2008 is a special year to china, beijing, and SOHO China. the 2008 olympic games are the talk of the town, the country and in fact, the world. the government is proud to host the xxix olympics and has invested hundreds of billions of rmb in infrastructure accordingly. a post-olympics beijing will be more beautiful, more convenient, and more efficient. property values will rise.

in response to global economic conditions it seems the chinese economy and investors are set to make a shift toward domestic demand. we feel that since nearly all of our leasing clients are chinese companies, SOHO China stands to gain the most from this change. we will continue to cultivate this segment, invest prudently, and ride the wave of china's historic urbanization. we believe that with your support, our strides will be great.

pan shiyi
chairman
9 march 2008

business review
our location

where we operate in china

1
Commune by the Great Wall

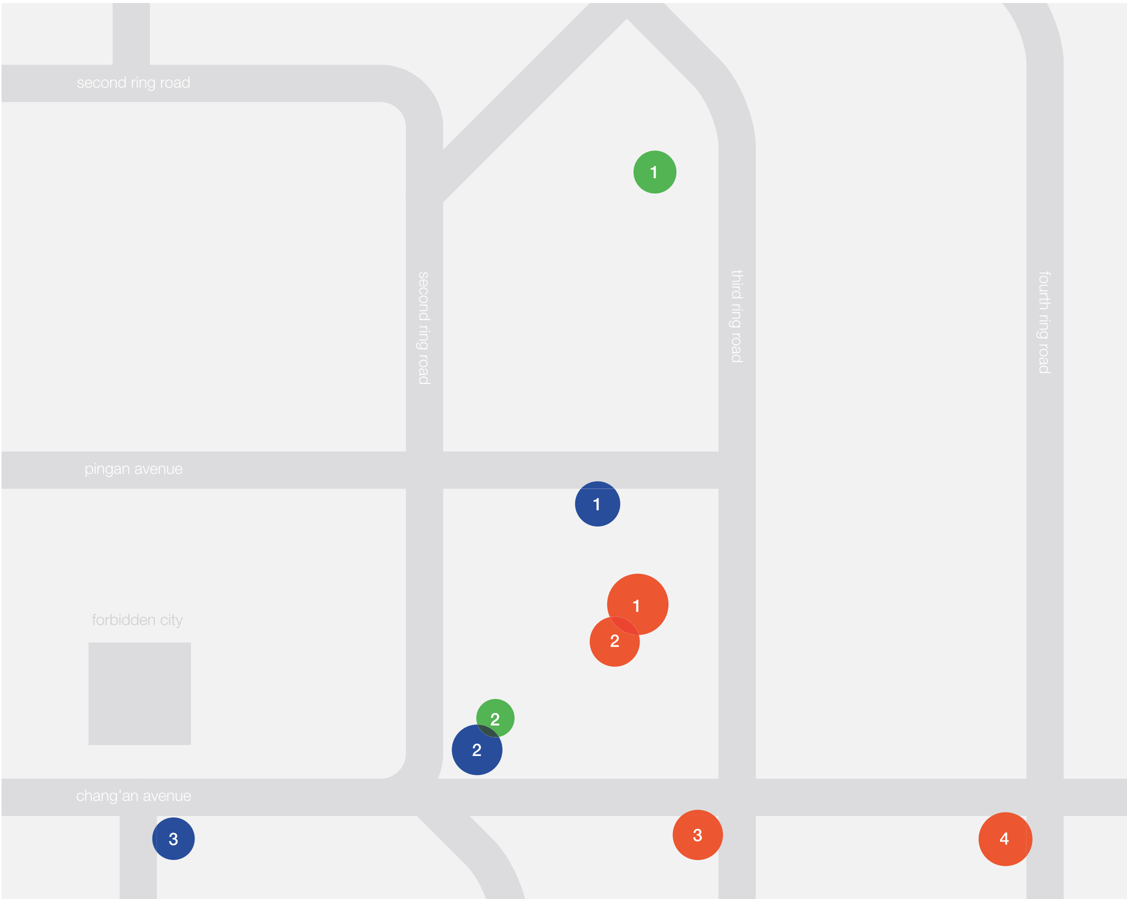
2
Beijing

3
Boao Kempinski

during 2007, SOHO China Limited and its subsidiaries (collectively, the "Group") achieved pre-sold/sold amount of rmb 4,032 million, pre-sold/sold 111,894 square meters (excluding car parks), for an average price of rmb 35,742 per square meter.

in 2007, the Group mainly undertook the development of five projects, namely Jianwai SOHO phase 7, SOHO Shangdu phase 3, Chaowai SOHO, Guanghualu SOHO and Sanlitun SOHO, acquired Guanghualu SOHO II and Beijing SOHO Residences. the Group completed approximately 337,000 square meters in 2007. as of 31 december 2007, approximately 788,000 square meters remained under development.

our projects in beijing



completed

1
Chaowai SOHO

2
SOHO Shangdu

3
Jianwai SOHO

4
SOHO Newtown

under construction

1
Sanlitum SOHO

2
Guanghualu SOHO

3
Tiananmen South (Qianmen)

newly acquired

1
Beijing SOHO Residences

2
Guanghualu SOHO II

business review
completed projects

during 2007 the Group completed the sales and engineering construction of three projects, namely Jianwai SOHO phase 7, SOHO Shangdu phase 3 and Chaowai SOHO.

Jianwai SOHO is located in beijing central business district ("cbd") and is opposite to the china world trade centre and next to yintai centre. with a total gfa of approximately 683,821 square meters and 24 buildings in total, it is one of the largest developments in beijing cbd and the busiest commercial areas in central beijing.

SOHO Shangdu is located in the prime retail area in beijing cbd. it is designed with a west wing (phase 2) and an east wing (phase 3) which are linked by a sky bridge. with a total gfa of approximately 172,176 square meters, it is comprised of a low-rise "shopping street" and two high-rise office buildings.

Chaowai SOHO is located in beijing cbd and close to SOHO Shangdu. the design of Chaowai SOHO has a distinctive asian element. with a total gfa of 150,028 square meters, it provides an experience of a "city within a city". the Group's headquarter resides in Chaowai SOHO building a.

project	total gfa (sq.m.)	saleable area (sq.m.)	percentage of saleable area sold by the end of 2007	2007 pre-sold/sold amount (rmb '000)	2007 pre-sold/sold area (sq.m.)	2007 average price (rmb/sq.m.)
Jianwai SOHO phase 1-6	610,658	470,398	99.7%	231,238	6,834	33,836
Jianwai SOHO phase 7	73,163	56,488	97.7%	106,366	3,872	27,470
SOHO Shangdu phase 2	42,989	24,352	100%	76,180	1,625	46,880
SOHO Shangdu phase 3	129,187	97,091	100%	159,704	5,500	29,035
Chaowai SOHO	150,028	108,875**	100%	746,257	21,858	34,141

*saleable area and pre-sold/sold area and amount exclude car parks and clubs in the projects;
**excluding 11,949 square meters the Group holds as headquarters office, etc.

1
Jianwai SOHO
piazza

2
SOHO Shangdu
building exterior

3
Chaowai SOHO
SOHO China's headquarters office


1


2

3


a prime location

SOHO China's strategy is simplicity itself – to build the best properties in the best locations. the location of our properties is designed to create maximum appeal to purchasers and users and to deliver maximum value to our shareholders. location is key and continues to differentiate our unique business model from our peers.

WE MUST HAVE ORDER, ALLOCATING TO EACH THING IT'S PROPER PLACE AND GIVING TO EACH THING IT'S DUE ACCORDING TO IT'S NATURE

ludwig mies van der rohe

business review
projects under construction

project	total gfa (sq.m.)	saleable area (sq.m.)	percentage of saleable area sold by the end of 2007	2007 pre-sold/sold amount (rmb '000)	2007 pre-sold/sold area (sq.m.)	2007 average price (rmb/sq.m.)
Guanghualu SOHO	75,766	58,861	96%	2,151,523	56,583	38,024
Sanlitun SOHO	465,680	360,000	–	–	–	–

*saleable area and pre-sold/sold area and amount exclude car parks and clubs in the projects.

projects under construction include Guanghualu SOHO and Sanlitun SOHO.

Guanghualu SOHO is located in beijing cbd close to the china world trade centre and the silk market. upon completion, Guanghualu SOHO will be comprised of four connected commercial towers with a total planned gfa of approximately 75,766 square meters. Guanghualu SOHO was 96% pre-sold by the end of 2007.

Sanlitun SOHO is located close to the second embassy district and the workers' stadium in beijing. the site is close to the popular sanlitun entertainment district. with a total planned gfa of approximately 465,680 square meters, Sanlitun SOHO will be one of the largest commercial and residential complexes available for sale in central beijing. pre-sales of Sanlitun SOHO are expected to commence in 2008.

1
Sanlitun SOHO
rendering

2
Guanghualu SOHO
mock-up office

3
Guanghualu SOHO
rendering

1

2

3

unique business model

our company's unique business model – to bulid and sell commercial property and provide after-sales leasing service to property investors – is at the core of our success and has established SOHO China as one of the top property brands in china.

THE DETAILS ARE
DETAILS
THEY MAKE THE PRODUCT
THE CONNECTIONS, THE CONNECTIONS, THE
CONNECTIONS
IT WILL IN THE END BE THESE
DETAILS THAT GIVE THE
PRODUCT
ITS LIFE

charles eames

business review
newly acquired projects

1
Beijing SOHO Residences
apartment living room

2
Beijing SOHO Residences
building exterior

3
Guanghualu SOHO II
model

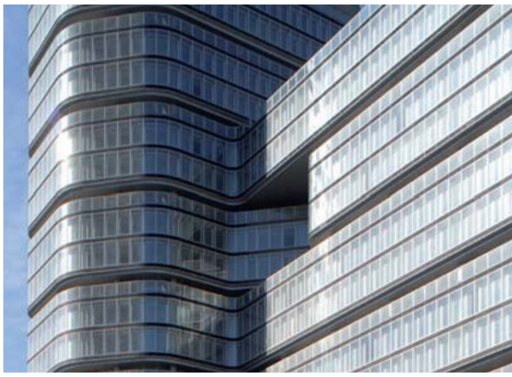
4
Guanghualu SOHO II
rendering

newly acquired projects include Beijing SOHO Residences and Guanghualu SOHO II.

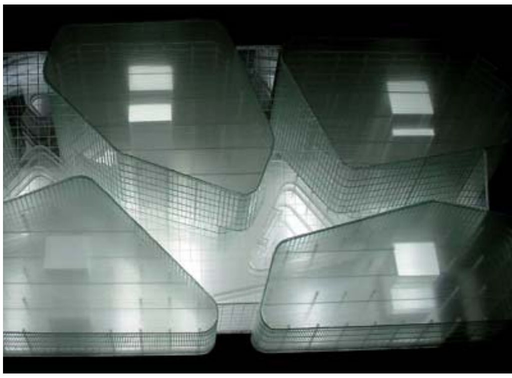
Beijing SOHO Residences is located in the lufthansa business circle in central beijing and is a high-end apartment project with a total planned gfa of approximately 66,333 square meters. we acquired this project on 2 november 2007, less than one month after the SOHO China listing. the total purchase price was rmb 1,412 million. on 19 december 2007, Beijing SOHO Residences commenced pre-sale, as the main structure had been completed upon acquisition. as of 31 december 2007, the pre-sale total reached rmb 453 million achieving an average price of rmb 46,812 per square meter.

1

Guanghualu SOHO II is located in the heart of the beijing cbd with a total planned gfa of approximately 180,000 square meters. we acquired this project on 2 november 2007, less than one month after the SOHO China listing. the total purchase price was rmb 1,029 million. Guanghualu SOHO II is undergoing land leveling.



2



3

4

china's premier property brand

our brand is one of the most recognised in china and sits comfortably alongside the multitude of international brands that are racing to establish themselves in the country. the essence of our brand values remain; developing the best locations in conjunction with internationally renowned architects incorporating best-in-class quality of building.

I WOULD LIKE MY ARCHI- TECTURE TO INSPIRE PEOPLE TO USE THEIR OWN RESOURCES, TO MOVE INTO THE FUTURE

tadao ando

business review
other projects

the Group has two hotel projects: Commune by the Great Wall and Boao Kempinski.

Commune by the Great Wall
managed by the kempinski hotels group, Commune by the Great Wall is located close to the great wall in the yanqing county of beijing, with a total planned gfa of 30,714 square meters. phase i is comprised of 11 unique houses, each designed by a renowned architect in asia, and one clubhouse. phase ii is comprised of 32 houses, a spa and a children's club. we consider Commune by the Great Wall to be an icon of contemporary modern architecture. it was named "a new architectural wonder of china" by business week in 2005. ms. zhang xin was awarded the 2002 la biennale di venezia, "special prize to an individual patron of architectural works" for the project.

Boao Kempinski is located in boao, a coastal town in the eastern part of hainan province. Boao Kempinski is a resort community comprised of 115 houses, one conference center and two restaurants, with a total planned gfa of 36,561 square meters. we have engaged key management, a member of the kempinski hotels group, to provide hotel management services.

Tiananmen South (Qianmen) project is located in the qianmen area lying immediately south of tiananmen square in beijing, in an area set aside by the beijing municipal government for preservation and redevelopment in a traditional style, with a total planned gfa of 360,000 square meters. the master plan for this project approved by the government includes the creation of an 845 meter long pedestrian shopping boulevard with traditional beijing shops, hutongs and courtyard homes scattered around it. we have entered a series of agreements with a view to acquiring the equity of this project, and are awaiting the government's approval.


1

2

1
Tiananmen South (Qianmen)
xianyukou ally

2
Boao Kempinski
front gate

3
Commune by the Great Wall
furniture house

4
Commune by the Great Wall
suitcase house

3

4

corporate and social responsibility

1 

SOHO China Foundation

SOHO China Foundation (the "Foundation") seeks to increase the material wealth as well as the spiritual well-being of our society.

material wealth and spiritual well-being, together, are the wings that will take human development to new heights both in china and globally. as SOHO China is generating enormous fortune for its shareholders, the Foundation has been active in organizing charity activities and programs. capital input and participation of our employees promote our spirit, contributing to synchronous development in spiritual and material fortune.

the Foundation pursues a holistic, comprehensive strategy to improve china's educational system, a geographically unequal system in dire need of expanded parameters and lacking options and choice. there are many ways to invest in education. for example, investment opportunities in educational "hardware", such as the building of schools in poverty stricken areas of china and the provision of financial support for low-income students to attend better, urban universities, abound. additionally, investments in educational "software", such as programs that increase knowledge and foster ethical values in our next generation, are equally crucial. with the rapid rise of china's economy, we have witnessed a disproportional emphasis on the development of technical skills and competitiveness to the detriment of the teaching and instilling of ethical values. however, what a modern chinese society needs is more, not less emphasis on behavior imbued with ethical values.

2

1
huangnan, qinghai
educational assistance
zhang xin accepts a token of gratitude from a representative of qinghai's huangnan prefecture.

2
SOHO China harmony express and SOHO China love delivery
pan shiyi braces this university student for the long trek home during spring festival.

we expect and formally encourage every member of SOHO China to identify and take ownership of projects supported by the Foundation, and then to contribute to their successful execution. along with the foundation's allocation of financial support, the employees of the Company allocate personal time and effort to participate in the disbursement of charity funds and the running of foundation's activities. by actively participating in the Foundation's projects, SOHO China seeks to raise spiritual well-being of our employees and our surrounding society.

the Foundation was established in 2004. in tandem with the marked rises in the revenues and profits of SOHO China, our Foundation has expanded its charitable activities. from 2004 to 2006, the Foundation and the Group disbursed approximately rmb 9.54 million. in 2007 alone, we expanded a total of over 20 million, doubled the total donation for the prior three years.

in 2007, the SOHO China Foundation and the Group disbursed donated approximately rmb20.68 million to all types of charity organizations, an amount equal to 215% of its total prior cumulative disbursements. rmb 14 million or 70% of the total donation were donated in the form of educational aid, with the recipients including huangnanzhou educational infrastructure program in qinghai province, tianshui city school libraries in gansu province, donations for low-income college students in beijing and the "aid for low-income family students" program in beijing's chaoyang district.

management discussion and analysis

Turnover

Turnover (net of business tax) for 2007 was RMB 6,954 million, representing an increase of RMB 5,214 million or 300% over RMB 1,740 million in 2006. The increase in turnover for 2007 was mainly attributable to an increase in the GFA delivered and the average selling price thereof. The GFA delivered increased from 84,143 square meters in 2006 to 282,052 square meters (excluding car parks) in 2007. The average selling price of delivered properties (excluding car parks) increased from RMB 20,403 per square meter in 2006 to RMB 24,441 per square meter in 2007, representing an increase of 20%.

Cost

Costs of property sold for 2007 was RMB 3,157 million, RMB 2,338 million higher than RMB 819 million in 2006, mainly as a result of increases in GFA delivered and land cost.

Gross profit

Gross profit for 2007 was RMB 3,797 million, representing an increase of RMB 2,876 million or 312% over RMB 921 million in 2006. Gross profit margin for 2007 was 55%, as compared to 53% in 2006.

Sales expenses

Sales expenses for 2007 were RMB 221 million, representing 3% of turnover, as compared to 5% in 2006.

Administrative expenses

Administrative expenses for 2007 were RMB 142 million, representing 2% of turnover, as compared to 5% in 2006.

Financial income

Financial income for 2007 was RMB 334 million, as compared to RMB 22 million for 2006. The increase in financial income was mainly attributable to interest accrued from application funds held during the listing of SOHO China on the Main Board of The Stock Exchange of Hong Kong Limited (the "SOHO China Listing") and the deposits from the initial public offering proceeds.

Financial expenses

Financial expenses for 2007 were RMB 4.53 million, representing a decrease of RMB 1.67 million over RMB 6.2 million in 2006.

Profit before taxation

Profit before taxation for 2007 was RMB 3,757 million, representing an increase of RMB 2,970 million or 377% over RMB 787 million in 2006.

Income tax

Income tax is comprised of the PRC Enterprise Income Tax and the Land Appreciation Tax. The Enterprise Income Tax for 2007 was RMB 852 million, representing an increase of RMB 637 million over RMB 215 million in 2006. Land Appreciation Tax for 2007 was RMB 909 million, representing an increase of RMB 747 million over RMB 162 million in 2006.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the Company's subsidiaries in the PRC (except for Hainan Redstone Industry Co., Ltd.) will be reduced from 33% to 25%.

Net profit

Net profit attributable to the equity shareholders of the Company for 2007 was RMB 1,966 million, representing an increase of RMB 1,625 million or 477% over RMB 341 million in 2006. Net profit margin was 28% in 2007 and 20% in 2006, representing an increase of 8%.

Cash and cash equivalents

Cash and cash equivalents as of 31 December 2007 equaled RMB 13,749 million, representing an increase of RMB 12,668 million or 1172% over RMB 1,081 million in as of 31 December 2006, mainly from internally generated cash flows, bank loans and the global offering. Cash is mainly used for land acquisition, or project acquisition cost, construction costs, working capital and operational costs.

Total current assets and liquidity ratio

Total current assets as of 31 December 2007 were approximately RMB 21,386 million, representing an increase of RMB 13,755 million or 180% over RMB 7,631 million as of 31 December 2006. Liquidity ratio (total current asset/current liabilities) increased from 1.26 as of 31 December 2006 to 2.78 as of 31 December 2007.

Bank loans

At 31 December 2007, the loan balance was RMB 2 billion, representing 8.5% of the total assets of the Group, slightly decreased from 9.5% as of 31 December 2006. RMB 1 billion of the loan was repayable in December 2008 and the remaining principal of RMB 1 billion by February 2009.

Interest rate

The Group's bank loans carried a floating interest rate at base lending rate of the People's Bank of China ("PBOC") which was 6.30%-7.56% per annum in 2007 (2006:6.30%). Our interest rate risk is mainly from the floating interest rate of loans. PBOC increased the base interest rate by 0.27% on 18 March 2007, 0.18% on 19 May 2007, 0.27% on 21 July 2007, 0.18% on 22 August 2007, 0.27% on 15 September 2007 and 0.09% on 21 December 2007. Current annual debt rate is 7.47% for a one-year loan, and at the same time, lending rates for loans with other maturities all increased correspondingly. We cannot be certain about the influence upon our business or China's property industry. However, the increase in interest rates might exert pressure on financing cost.

Employees and compensation policy

We treasure our simple and efficient compensation policy which is based on five major tenets: "fairness, competitiveness, incentivisation, combined achievement and legality". The compensation of the executive director of the Company is also based on the Company's growth and profit and subject to the market environment.

Compensation of our employees includes their basic salary and bonuses. Bonuses are determined on a quarterly basis based on performance reviews. Compensation of sales staff primarily comprises commissions linked to sales performance. After the commencement of trading of the Shares on the Stock Exchange, we also expect to grant share options to our senior employees pursuant to the Share Option Scheme as part of their remuneration packages.

Use of proceeds from initial public offering

The proceeds from the SOHO China Listing have been partially used to fund the property development business of the Company or its subsidiaries.

directors' report

The Directors of the Company are pleased to present their report together with the audited financial statement of the Group for the year ended 31 December 2007.

Principal activities

The principal activity of the Company is investment in real estate developing. Details of the principal activities of the subsidiaries are set out in the section "Business review" of this resport. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2007 and the financial status of the Company and the Group at that date are set out in the financial statements.

Summary financial information

A summary of the financial results of the Group for the past four financial years is set out below. This summary does not form part of the audited financial statements.

Consolidated income statement for the year ended 31 december

RMB '000	2007	2006	2005	2004
Turnover	6,953,580	1,740,312	3,842,449	2,332,149
Profit before taxation	3,756,790	787,197	1,653,574	808,781
Income tax	(1,769,382)	(377,467)	(788,526)	(384,408)
Profit for the year	1,987,408	409,730	865,048	424,373
Attributable to:				
Equity share holders of the Company	1,965,660	340,852	709,641	317,898
Minority interests	21,748	68,878	155,407	106,475
Final dividend proposed after the balance sheet date	523,241	–	33,866	78,183
Basic and diluted earnings per share (RMB)	0.477	0.091	0.189	0.085

Consolidated balance sheets as at 31 december

RMB '000				
Non-current assets	2,071,746	798,502	609,554	472,412
Current assets	21,386,429	7,631,139	5,318,538	5,923,371
Current liabilities	7,685,385	6,039,360	4,654,401	5,905,491
Net current assets	13,701,044	1,591,779	664,137	17,880
Total assets less current liabilities	15,772,790	2,390,281	1,273,691	490,292
Non-current liabilities	1,154,429	867,501	66,287	28,082
Net assets	14,618,361	1,522,780	1,207,404	462,210
Share capital	108,352	79,642	79,642	79,642
Reserves	14,347,480	1,280,541	896,451	264,993
Total equity attributable to equity shareholders of the Company	14,455,832	1,360,183	976,093	344,635
Minority interests	162,529	162,597	231,311	117,575
Total equity	14,618,361	1,522,780	1,207,404	462,210

Share capital and share options
Details of changes in the Group's share capital and share options during the year and details of the Company's share option schemes (the "Share Option Schemes") are set out in note 22 and 24 to the financial statements.

Reserves
Details of changes in the reserves of the Group during the year are set out in note 22 to the financial statements.

Purchase, sale or redemption of listed securities of the Company
In the period between the date of the SOHO China Listing and 31 December 2007, neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company's listed securities.

Charitable donations
In 2007, the SOHO China Foundation and the Group donated RMB 20.68 million to all types of charity organizations. RMB 14.7 million or 70% of the total donation was donated in the form of educational aid, with the recipients including Huangnanzhou educational infrastructure program in Qinghai province, Tianshui city school libraries in Gansu province, donations for low-Income college students in Beijing and the "Aid for Low-Income Family Students" program in Beijing's Chaoyang district.

In addition, the Foundation and the Group donated approximately RMB 2 million to organizations such as the Beijing Charity Foundation, the Red Cross and a fund for the disabled. The Foundation also donated RMB 4 million to the Olympics and other cultural programs.

Pre-emptive rights
There are no provisions for pre-emptive rights under the Company's Articles of Association, and there are also no restrictions against such right under the laws of the Cayman Islands.

Property and equipment
Details of changes in property and equipment of the Group during the year are set out in note 12 to the financial statements.

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

Executive Directors:
Mr. PAN Shiyi (Chairman)
Ms. PAN ZHANG Xin Marita (Chief Executive Officer)
Ms. YAN Yan (Chief Financial Officer)
Mr. SU Xin (Chief Operating Officer, appointed on 23 February 2007)

directors' report continued

Non-executive independent Directors

Dr. Ramin KHADEM (appointed on 11 May 2007)
Mr. CHA Mou Zing, Victor (appointed on 11 May 2007)
Mr. YI Xiqun (appointed on 11 May 2007)

Biographies of Directors and members of senior management

Executive Directors

Mr. PAN Shiyi
Chairman of Board of Directors
Mr. PAN Shiyi, aged 44, is executive Director and Chairman of the Board of Directors of the Company. Mr. Pan co-founded Redstone Industry Co., Ltd.,the predecessor of the Company, in 1995. Since then he has led, together with his wife, Mrs. Pan Zhang Xin, the development of all of the Company's ten projects and the Tiananmen South (Qianmen) Project. Before that, Mr. Pan co-founded Beijing Vantone Co. Ltd. ("Vantone") in 1992.

Mr. Pan was selected as one of the "Top Ten Influential Figures in Real Estate Industry" by sina.com in 2004 and 2006, one of the "Top Ten Influential Figures in Real Estate Industry" by sohu.com in 2005 and one of the "25 Most Influential Business Leaders" in China by Fortune (China) Magazine in 2005.

Ms. PAN ZHANG Xin Marita
Executive Director and Chief Executive Officer
Ms. PAN ZHANG Xin Marita, aged 43, is our executive Director and Chief Executive Officer. She co-founded Redstone Industry Co., Ltd., the predecessor of our company, in 1995. Since then she has led, together with her husband Mr. Pan Shiyi, the development of all of our ten projects and the Tiananmen South (Qianmen) Project. Prior to founding our company, Ms. Zhang worked in Hong Kong at Goldman Sachs (Asia) L.L.C. from 1992 to 1993 in the Investment Banking division. She also worked from 1993 to 1995 in the Direct Investment division of the Travelers Group.

Ms. Zhang was selected by the World Economic Forum as a Young Global Leader in 2005. In recognition of Ms. Zhang's efforts in promoting the development of architecture in Asia, Ms. Zhang was awarded a Special Prize to an Individual Patron of Architectural Award by La Biennale di Venezia in 2002. She has also spoken at various forums including the Fortune Global Forum 2005 and the China Business Summit 2003 & World Economic Development Declaration 2003.

Ms. YAN Yan
Executive Director and Chief Financial Officer
Ms. YAN Yan, aged 44, is our executive Director and Chief Financial Officer and is responsible for the financial strategy and management of our company. Ms. Yan joined our company in December 1996. Ms. Yan received a Bachelor of Civil Engineering degree from Tianjin University in 1986. She has 15 years of relevant experience.

Mr. SU Xin
Executive Director and Chief Operating Officer
Mr. SU Xin, aged 40, is our executive Director and Chief Operating Officer and is responsible for the Company's day-to-day operations including: sales, human resources and information technology functions. Mr. Su joined our Company in March 1998. Mr. Su received a Bachelor of Engineering Mechanics degree from Tongji University in 1991 and an Executive Master's degree in Business Administration from China Europe International Business School in 2005. He has ten years of relevant experience in the real estate development industry in China.

Independent Non-executive Directors

Dr. Ramin KHADEM
Dr. Ramin KHADEM, aged 63, is an Independent non-executive Director of the Company. He is the Chairman of the Board of Trustees of the International Space University, Strasbourg, France. He is a member of the advisory board of ManSat Ltd, a company that serves the needs of the international space industry, as well as Near Earth L.L.C. an investment bank with a focus on the satellite, media and telecommunications clients and investors. He is also the Senior Adviser to the Chairman and Chief Executive Officer of Inmarsat Plc.. Dr. KHADEM served as an executive director of Inmarsat Ventures Limited (formerly known as Inmarsat Ventures plc) ("Inmarsat") between October 2000 and July 2004, and also as an executive director of Inmarsat Group Holdings Limited between December 2003 and July 2004 where he was responsible for the overall financial management and performance of the Inmarsat Group. Before this, he had held several other posts in Inmarsat, including financial directors, financial manager and executive officier. Dr. KHADEM graduated from the University of Illinois with a B.S. degree in electrical and mechanical engineering from McGill University with a Ph.D. degree in Economics.

Mr. CHA Mou Zing, Victor
Mr. CHA Mou Zing, Victor, aged 58, is an Independent non-executive Director of the Company. He is the Deputy Chairman and Managing Director of HKR International Limited (Stock Code 480 listed on the Stock Exchange), an alternate independent non-executive director of New World Development Company Limited (Stock Code 0017 listed on the Stock Exchange) and an independent director of China Netcom Group Corporation (Hong Kong) Limited, (Stock Code 906 listed on the Stock Exchange). He is also a member of the Chinese People's Political Consultative Committee of Zhejiang Province and a council member of the Hong Kong Polytechnic University. Mr. Cha graduated from Stanford University with a MBA degree and University of Wisconsin with a B.S. degree.

Mr. YI Xiqun
Mr. YI Xiqun, aged 60, is an Independent non-executive Director of the Company. He is the Chairman of Beijing Enterprises Holdings Limited (Stock Code 392 listed on the Stock Exchange). He graduated from the Beijing Chemical Institute in 1975 and later obtained a postgraduate degree in economics and management engineering from Tsinghua University. Since 1991, Mr. Yi has been an assistant to the Mayor of Beijing as well as Director of the Economic and Foreign Trade Commission of Beijing Municipality and the Management Committee of the Beijing Economic and Technology Development Zone. Mr. Yi has in-depth knowledge and a wealth of experience in macroeconomic and microeconomic management.

Senior Management

Mr. LI Hong
Senior Vice President
Mr. LI Hong, aged 45, is one of our senior vice Presidents and oversees project management. Mr. Li joined our company in 1997. Mr. Li received a Bachelor of Science degree from the School of Architecture, Harbin Institute of Technology in 1985. He has 19 years of relevant experience in the real estate development industry in China.

Mr. XU Yang
Senior Vice President
Mr. XU Yang, aged 48, is one of our senior vice Presidents and oversees marketing, rental and customer service. Mr. Xu joined our company in 1999. Mr. Xu graduated from the University of Science and Technology of Beijing. He has 9 years of relevant experience in the real estate development industry in China.

Ms. TONG Ching Mau
Director of Corporate Finance
Ms. TONG Ching Mau, aged 38, is our Director of Corporate Finance. She performs corporate finance and investor relations functions. Ms. Tong joined our company in 2002. She received her Bachelor and Master of Economics from Shanghai Fudan University in 1991 and 1994 and her Master degree in Business Administration from Yale University in 2001. She has 14 years of relevant experience in finance and more than 5 years experience in the real estate development industry in China.

Mr. ZHAO Guilin
Qualified Accountant
Mr. ZHAO Guilin, aged 44, is a member of our senior management and, also is a qualified accountant and our financial controller, responsible for our financial management, accounting and audit, taxation, financial report, bank credit and other day-to-day financial administration. Mr. Zhao has more than 20 years' working experience, and has worked with us for eleven years on a full time basis. Mr. Zhaowas registered as a Hong Kong CPA with effect from 15 May 2007; in 2004 he obtained a master's degree in accounting from Deakin University of Australia and qualified as a certified public accountant in Australia. Mr. Zhao qualified as a PRC certified public accountant in 1994 and a PRC registered taxation advisor in 1998. Mr. Zhao graduated from Jilin University in 1988 with a master's degree in technology.

Mr. NGAI Wai Fung
Mr. Nagai Wai Fung, age 46, is the Company's secretary. Mr. Nagai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Nagai is currently vice president of The Hong Kong Institute of Chartered Secretaries (HKICS) and the Chairman of its China Affairs Committee and Membership Committee. He is also a fellow of HKICS and the Institute of Chartered Secretaries and Administrators in United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of Hong Kong Institute of Directors and a member of Hong Kong Securities Institute. Mr. Nagai hold a Master of Corporate Finance from The Hong Kong Polytechnic University, a Master of Business Administration from Andrews University of the United States and a Bachelor of Laws (with Honours) degree from the University of Wolverhampton, the United Kingdom. He is also a PhD (thesis stage) in Finance at Shanghai University of Finance and Economics."

directors' report continued

Directors' remuneration

The Directors' remuneration are subject to shareholders' approval at annual general meetings. Other emoluments are determined by the Company's board of Directors with reference to Directors' duties, responsibilities and performance and the financial results of the Group.

Directors' interests in contracts

With the exception of the contracts in relation to Tiananmen South project, as disclosed in the connected transaction section, none of the Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Disclosure of interests in securities

As at 31 December 2007, the interests or short positions of the Directors or the Chief Executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance ("SFO")), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions of the SFO), or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

(i) Shares of the Company

Name	Personal Interests	Family Interests	Corporate Interests	Total (Number of Shares)	Total (Approximate percentage of Shares)
Pan Shiyi	–	3,324,100,000	–	3,324,100,000	63.529%
Pan Zhang Xin Marita	–	–	3,324,100,000	3,324,100,000	63.529%
Yan Yan(Note)	1,242,500	–	–	1,242,500	0.024%
Su Xin(Note)	750,000	–	–	750,000	0.014%

Note: These are interests in the underlying Shares pursuant to options granted on 14 September 2007 under the Company's pre-IPO share option scheme adopted by the Company pursuant to a resolution passed by Shareholders on 14 September 2007.

(ii) Shares of the Company's subsidiaries

Name	Name of subsidiary	Nature of interest	Approximate percentage of interest in the subsidiary
Pan Shiyi	Beijing Redstone Jianwai ReaEstate Development Co. Ltd.	indirect	4.25%
	Beijing SOHO Real Estate Co. Ltd.	beneficial	5%
	Beijing Redstone Newtown Real Estate Co. Ltd.	beneficial	5%
	Beijing Shanshi Real Estate Company Limited	beneficial	5%
Yan Yan	Beijing Redstone Jianwai Real Estate Development Co. Ltd.	indirect	0.75%

Substantial shareholders and other persons' interests in the shares and underlying shares of the company

As at last practical date, so far as is known to the Directors, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain Directors, the following Shareholders had notified the Company of their relevant interests in the issued share capital of the Company which is discloseable under Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Shares	Approximate percentage of Shares
Pan Zhang Xin Marita	3,324,100,000	63.529%
Capevale Limited (Cayman Islands) (Note 1)	3,324,100,000	63.529%
Boyce Limited (Notes 1 and 2)	1,662,050,000	31.765%
Capevale Limited (BVI) (Notes 1 and 3)	1,662,050,000	31.765%

Notes:
(1) HSBC International Trustee Limited (in its capacity as the trustee of the Trust) is the legal owner of 100% of the shares in the issued share capital of Capevale Limited (Cayman Islands). HSBC International Trustee Limited holds these shares under the Trust for the benefit of the beneficiaries of the Trust, including Ms. Pan Zhang Xin Marita. Each of Boyce Limited and Capevale Limited (BVI) is the registered owner of 1,662,050,000 Shares, or approximately 31.765% of the Company.
(2) Boyce Limited is a wholly-owned subsidiary of Capevale Limited (BVI).
(3) Capevale Limited (BVI) is a wholly-owned subsidiary of Capevale Limited (Cayman Islands).

Save as disclosed above and so far as is known to the Directors as at 31 December 2007, there is no other person, other than the Directors or the Chief Executive of the Company, who has interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Directors' rights to acquire shares

Save as disclosed in the section headed "Share option schemes" below, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Directors or their respective spouse or minor children, nor were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Share option schemes

The Company has adopted Share Option Schemes. The Share Option Schemes provide for the grant of options on our Shares to our senior management that meet specified criteria.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Code of Corporate Governance Practices

In the opinion of the Directors, the Company has been in compliance with the provisions of the Code on Corporate Governance Practices (the "Code Provisions") contained in Appendix 14 to the Listing Rules of The Stock Exchange, throughout the accounting period covered by the annual report.

Material legal proceedings

There was no Material legal proceedings in 2007.

Auditors

The financial statements have been audited by KPMG, who shall retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board
Pan Shiyi, Chairman
9 March 2008

connected transactions

During the year, the Group had the following continuing connected transactions with connected persons of the Company within the meaning of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

(a) The Group entered into the supplemental agreements with Beijing Zeli Investment Co., Ltd. ("Beijing Zeli") and with Beijing Hongyun Enterprises Co., Ltd. ("Beijing Hongyun").

As Mr. Wong Sow Voon is a director of Beijing Zhonghongtian Real Estate Co. Ltd. ("Zhonghongtian"), a non wholly-owned subsidiary of the Company and therefore a connected person of the Company and it is the understanding of the Company that Beijing Zeli is controlled by Mr. Wong Sow Voon, and accordingly Beijing Zeli is a connected person of the Company. The transactions between Beijing Zeli and the Group are connected transactions.

Beijing Hongyun is a 17% shareholder of Zhonghongtian and accordingly is a connected person of the Company. The transactions between Beijing Hongyun and the Group are connected transactions.

In accordance with the terms set out in the supplemental agreements, the Group did not receive any interest during the year ended 31 December 2007 and the aggregate outstanding amount under each of the supplement agreements as at 31 December 2007 did not exceed the amount disclosed in the prospectus.

(b) The Group entered into the property purchase contracts with Ms. Yan Yan (an executive Director of the Company) and her associates, and with Mr. Su Xin (an executive Director of the Company), while the consideration settled and the guarantees provided by the Group during the year ended 31 December 2007 were in accordance with the relevant terms set out in the property purchase contracts, and the amounts of the consideration settled and the guarantees provided by the Group during the year ended 31 December 2007 did not exceed the amounts disclosed in the prospectus;

(c) The Group entered into the equity transfer agreements and the capital increase agreements with Mr Pan Shiyi and Ms. Yan Yan. Mr. Pan Shiyi and Ms. Yan Yan are executive Directors of the Company.

The consideration paid and the capital injected during the year ended 31 December 2007 were in accordance with the relevant terms set out in the equity transfer agreements or the capital increase agreements, while the consideration paid and the capital injected under the equity transfer agreements or the capital increase agreements did not exceed the amounts disclosed in the prospectus;

(d) The Group provided three entrustment loans to Beijing Danshi Investment Management Co., Ltd. ("Beijing Danshi"), an entity controlled by Mr. Pan Shiyi ,who is an executive Director of the Company. Accordingly, Beijing Danshi is a connected person under the Listing Rules.

The interest received by the Group during the year ended 31 December 2007 was in accordance with the relevant terms set out in the entrustment loan agreements, and the amounts under the entrustment loan agreements had been settled by 12 October 2007.

(e) The Group entered into an agreement with Beijing Danshi in relation to the acquisition of the equity interests in Beijing Tianjie Real Estate Development Company Limited. Accordingly, Beijing Danshi is a connected person under the Listing Rules.

No payment or transfer of equity interest in Beijing Tianjie was made by the Group during the year ended 31 December 2007 as the transactions are pending for the government approval.

(f) The Group entered into the project management agreement with Beijing Danshi, an entity controlled by Mr. Pan Shiyi who is executive Director of the Company. Accordingly, Beijing Danshi is a connected person under the Listing Rules.

No service fee was received by the Group during the year ended 31 December 2007 .

The auditor of the Company has confirmed to the Board of Directors on matters stated in Rule 14A.38 in relation to the above continuing connected transactions. The independent non-executive Directors of the Company have, for the purpose of Rule 14A.37 of the Listing Rules, reviewed the continuing connected transactions and confirmed that such continuing connected transactions have been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms, or on terms no less favourable than terms available to the Company or from independent third parties, in accordance with the terms of the agreements governing such transactions which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Note:
In connection with the settlement of the amounts under the three entrustment loans provided the Group to Beijing Danshi as discussed in (d) above, the Group, Beijing Danshi and the Bank of East Asia (China) Limited entered into a fund monitoring agreement ("Fund Monitoring Agreement") on 11 October 2007. The Company's management took the view that the Fund Monitoring Agreement did not constitute financial assistance under the Listing Rules and therefore did not regard the agreement as a continuing connected transaction under the Listing Rules. However, based on a consultation with the Stock Exchange, the Stock Exchange regarded the Fund Monitoring Agreement as a non-exempt connected transaction, subject to the requirement for reporting, announcement and independent shareholders' approval under Listing Rule 14A.63. The Company made an announcement regarding this connected transaction and non-compliance with the Listing Rules on 3 April 2008, and is currently in the process of exploring all options with respect to the possible termination of the Fund Monitoring Agreement as well as its disclosure obligations with respect to the Fund Monitoring Agreement under the Listing Rules.

corporate governance report

The Company is committed to upholding high standards of corporate governance which, it believes, is crucial to the development of the Company and safeguarding the interests of the Company's shareholders. The Company has adopted sound governance and disclosure practices, and is committed to continuously improving these practices and inculcating an ethical corporate culture.

The Company has been in compliance with the Code Provisions contained in Appendix 14 to the Listing Rules on the Stock Exchange since 8 October 2007 (the date of the SOHO China listing).

Compliance with the "model code for securities transactions"

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as the code of conduct for securities transactions carried out by Directors. Having conducted specific inquiry by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the period from 8 October 2007 (listing date of the shares of the Company) to 31 December 2007.

Board of directors

The board of Directors of the Company (the "Board"), is responsible for the leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. Under the leadership of the Chairman, the Board of Directors is also responsible for approving and overseeing the overall strategies and policies of the Company, approving the annual budget and business plans, as well as assessing the Company's performance and supervising the work of the senior management.

The Board is currently comprised of seven Directors, including Mr. Pan Shiyi, the Chairman and executive Director; Mrs. Pan Zhang Xin Marita, the executive Director and Chief executive Officer; two executive Directors, Ms. Yan Yan and Mr. Su Xin; and three independent non-executive directors, Mr. Ramin KHADEM, Mr. Cha Mou Zing, Victor and Mr. Yi Xiqun (Details of their biographical information are set out in the section headed "Biographies of Directors" of this report).

Regular Board meetings are held four times a year (at quarterly intervals) and any ad hoc meeting will be held when necessary, and Directors will be given at least 14 days notice and provided with all related information before the meetings. The Directors are appointed by shareholders of the Company through ordinary resolutions or appointed by the Board to fill any existing vacancies on the Board or for new additions to the Board. At each annual general meeting of the shareholders, one-third (or, if the number is not a multiple of three, the number nearest to but not greater than one-third) of the Directors in office at the relevant time shall retire by rotation but are eligible for re-election and re-appointment.

Liability insurance for Directors and senior management officers was maintained by the Company with coverage for any legal liabilities which may arise in the course of performing their duties.

Chairman and Chief Executive Officer

The Chairman of the Board and the Chief Executive Officer are currently two separate positions held by Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita respectively with clear distinction in responsibilities. The Chairman of the Board is responsible for the management and leadership of the Board to formulate overall strategies and business development directions for the Company, to ensure adequate, complete and reliable information is provided to all Directors in a timely manner, and to ensure the issues raised at the Board meetings are explained appropriately. The Chief Executive Officer is responsible for the management of the business of the Company, implementation of the policies, business objectives and plans set by the Board and is accountable to the Board for the overall operation of the Company.

Service term of Independent Non-Executive Directors

According to the Code Provisions, each independent non-executive Director has a specific term of service and subject to re-election. Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of one year commencing from 11 May 2007. All the independent non-executive Directors have been re-elected in the last annual general meeting.

Board composition

The Board of Directors of the Company is established in accordance with the provisions of Rule 3.10 of the Listing Rules. Of the three independent non-executive Directors appointed, at least one or more are equipped with financial expertise. Pursuant to the guidelines provided in Rule 3.13 of the Listing Rules, the Company has received the confirmation statements of independence from each of the independent non-executive Directors, and thus the Board considers such Directors to be independent persons. The Board believes that the independent non-executive Directors are able to offer independent opinions on the Company's development strategy, risk management and management process, etc. so that the interests of the Company and all shareholders will be taken into consideration and duly safeguarded.

The Board's composition demonstrates a balance of core competence with regard to the business of the Company, so as to provide effective leadership and the required expertise to the Company.

Three Board committees, namely the Audit Committee, the Remuneration Committee and the Compliance Committee, have been established to oversee particular aspects of the Company's affairs. The rights and obligations of the Board committees of the Company are set out in written terms of reference.

The Chairman of the Board of the Company, Mr. Pan Shiyi, is the husband of Mrs. Pan Zhang Xin Marita, the executive Director and Chief Executive Officer of the Company. Save for the information disclosed above, members of the Board are not related to each other.

Board meetings

From 8 October 2007 to 31 December 2007, one Board meeting was held by the Company and all Directors attended the meeting. Below is the attendance record of each of the Directors:

Directors	Attendance/
Executive Directors	No. of Meetings
PAN Shiyi	1/1
PAN Zhangxin Marita	1/1
YAN yan	1/1
SU Xin	1/1
Independent executive Directors	
Ramin KHADEM	1/1
CHA Mou Zing	1/1
YI Xiqun	1/1

Between meetings, the senior management of the Company provided each Director with timely information regarding the business activities and developments of the Company and met with independent non-executive Directors to seek their views on the business development and operational matters of the Company.

Provision and use of information

- Minutes of all Board and Committee meetings are kept by designated secretaries, and will be available for inspection by any Director after giving reasonable notice.
- All Directors are entitled to receive advice and services from the Company Secretary to ensure due compliance with the rules of procedures of the Board.
- Directors may have recourse to seek independent advice from professionals as appropriate and such fees incurred shall be borne by the Company.

Audit committee

The audit committee is comprised of three independent non-executive Directors, namely Dr. Ramin KHADEM, Mr. Cha Mou Zing, Victor and Mr. Yi Xiqun. The committee is chaired by Dr. Ramin KHADEM, who has the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Hong Kong Stock Exchange.

corporate governance report continued

The audit committee is authorized by the Board to review the relevant financial reports and to give recommendations and advice, its duties include:

(1) Relationship with the Company's auditor

The duty to make recommendations to the Board on the appointment, reappointment or removal of external auditor(s); to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process; to develop and implement policies on the engagement of the external auditor for providing audit services; to meet with the external auditor and discuss matters relating to the audit, if necessary, in the absence of the management of the Company.

(2) Review of Financial Information of the Company

The duty to monitor the integrity of financial statements of the Company set out in the Company's annual reports and accounts and the half-yearly reports, and to review any significant views of financial reporting contained in them.

(3) Monitor the Company's Financial Reporting System and Internal Control Procedures

Each of the Company's operational departments has established internal audit and supervisory functions for its operating procedures. The audit committee will also review the financial control, internal control and risk management systems to ensure adequate resources are allocated to operate the control procedures effectively.

The audit committee has reviewed the internal audit plan report submitted by the internal audit department and proposed to the Board recommendations about matters like risk and internal control. Meanwhile, the audit committee has reviewed the annual result of the Company for the year ended 31 December 2007 and considered that the Company has complied with all applicable accounting standards and requirements and made adequate disclosure.

The audit committee has reviewed the auditor's fee for the year 2007, and recommended the Board to re-appoint KPMG as auditor of the Company for the year 2008, subject to the approval of shareholders at the forthcoming shareholders general meeting.

Since SOHO China was listed on the Stock Exchange on 8 October 2007, there was no audit committee meeting held during the year ended 31 December 2007.

Remuneration Committee

The remuneration committee comprises three independent non-executive Directors, namely Dr. Ramin KHADEM, Mr. CHA Mou Zing, Victor and Mr. YI Xiqun. Dr. Ramin KHADEM is the current Chairman of the remuneration committee. The remuneration committee is mainly responsible for appraising the performance of the Directors and senior management of the Company and making recommendations for their remuneration arrangements, as well as for assessing and making recommendations for staff benefits.

From 8 October 2007 to 31 December 2007, one meeting was held by the remuneration committee. Below is the attendance record of each of the committee members:

Committee members	Attendance No. of Meetings
Ramin KHADEM	1/1
CHA Mou Zing	1/1
YI Xiqun	1/1

A complete record of the minutes of meeting is kept by the Company Secretary. The remuneration committee has reviewed the Company's remuneration policies, the terms of service contracts and the performance of all executive Directors and the senior management. In the opinion of the remuneration committee, the remuneration payable to all executive Directors and the senior managers is in accordance with the contractual terms, such remuneration is fair and reasonable, and does not create any additional burden for the Company.

Remuneration details of each Director for the year 2007 are set out in the Note 7 to Financial Statement.

Nomination, appointment and re-election of Directors

The Company has not established a Nomination Committee. The Board is responsible for formulating procedures for appointing Directors and nominating for election by shareholders of appropriate persons to fill casual vacancies or as an addition to the existing Directors at the general meeting.

The Company's existing Directors appointed this year will retire and be eligible for re-appointment at forthcoming annual general meetings. The circular sent to shareholders prior to the annual general meeting will include details about Director elections and biographies of all re-appointment candidates, to ensure that all Directors are well-informed prior to the election of Directors.

Compliance committee

We have set up a compliance committee which is chaired by Dr. Ramin KHADEM, one of our independent non-executive Directors. The compliance committee comprises all our Directors, including our independent non-executive Directors, chief financial officer, chief operating officer, qualified accountant, and company secretary. Representatives from our internal legal department and our external legal advisers will be invited to attend the meetings to ensure that we will be in full compliance with all applicable laws and regulations upon Listing. We had our first compliance committee meeting on 4 November, 2007.

Risk management committee

We have established a risk management committee consisting of the senior management of the Company and an in-house lawyer. The committee is responsible for coordinating and overseeing the risk management process of the Company. External PRC legal advisers will also be invited to attend the meetings.

Directors' responsibility for the financial statements

The Directors are responsible for preparing the annual accounts, which give a true and fair view of the state of affairs, the operating results and the cash flows of the Group for the year. In preparing the annual financial statement for the year ended 31 December 2007, the Directors have selected suitable accounting policies and adopted appropriate accounting standards. Based on judgments and estimates that are prudent and reasonable, the Directors prepared the accounts on the going concern basis. The Directors have confirmed that the financial statements of the Group are prepared in compliance with the statutory requirements and appropriate standards of accounting.

Internal control

The Board has the responsibility to maintain and review the Company's internal control system to ensure the Company's assets and shareholders' interests are safeguarded. The Board also reviews the internal control and risk management systems to ensure their effectiveness.

The Company has set up an internal audit department, which is an important part of its internal control system. In 2007, the Company also appointed Deloitte Touche Tohmatsu as its internal control consultant to implement risk assessment, prepare internal audit plans and carry out internal audits to strengthen the internal control system.

The Board is responsible for the internal control system of the Company and conducts regular review on the effectiveness of the system through the internal audit department. The Board considers that, during the year under review, the existing internal control system has been operating in a healthy and effective manner in the financial, operational, compliance and risk management aspects.

Auditors' remuneration

KPMG is the external auditor of the Company. The remuneration amounts paid and payable by the Company to KPMG for their services rendered for the year ended 31 December 2007 are set out below:

Services rendered	Fees paid/payable
Audit services for 2007	HK$4.5 million
Non-audit services:	
Internal control consulting review	RMB1.20 million

Effective communication with shareholders

The senior management believes that effective communication with investors is necessary. Since the SOHO China Listing on 8 October 2007, the Company has been strengthening its investor relations continuously in order to maintain smooth communication with the media, analysts and investors through different communication channels, including meetings, participation of senior management officers in seminars for investors, conferences and road shows. To keep the market abreast of the Company's developments and the dynamics of the mainland Chinese real estate industry and to deepen the market's understanding of and confidence in the Company, designated senior management officers in Investor Relations maintain regular dialogue with investors and analysts. Arrangements are also made for individual investors and analysts to visit the sites and properties of the Company directly, so as to actively create opportunities for communication with investors.

The annual general meeting provides an effective channel for the shareholders' views to be communicated to the Board. The Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer will attend the annual general meeting to address shareholders' queries regarding the Company's business. Moreover, shareholders may also obtain the latest information of the Company from its website.

Voting by poll

A circular relating to the annual general meeting of the Company will be dispatched to shareholders of the Company at least 21 days prior to the date of the annual general meeting, setting out the details of each proposed resolution, the procedure of voting by poll and other relevant information. At the beginning of the annual general meeting, the voting procedure will be explained once again by the chairman presiding at the meeting.

independent auditor's report to the shareholders of SOHO China Limited

Incorporated in Cayman Islands with limited liability

We have audited the consolidated financial statements of SOHO China Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 45 to 101, which comprise the consolidated and company balance sheets as at 31 December 2007, 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
9 March 2008

consolidated income statement for the year ended 31 december 2007

	Note	2007 RMB'000	2006 RMB'000
Turnover	3	6,953,580	1,740,312
Cost of properties sold		(3,156,638)	(819,173)
Gross profit		3,796,942	921,139
Other operating revenue	4	90,664	67,249
Selling expenses		(220,934)	(89,561)
Administrative expenses		(141,885)	(92,732)
Other operating expenses		(97,720)	(34,855)
Profit from operations		3,427,067	771,240
Financial income	5(a)	334,257	22,159
Financial expenses	5(a)	(4,534)	(6,202)
Profit before taxation	5	3,756,790	787,197
Income tax	6(a)	(1,769,382)	(377,467)
Profit for the year		1,987,408	409,730
Attributable to:			
Equity shareholders of the Company		1,965,660	340,852
Minority interests		21,748	68,878
Profit for the year		1,987,408	409,730
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	10	523,241	–
Basic and diluted earnings per share (RMB)	11	0.477	0.091

The notes on pages 52 to 101 form part of these financial statements.

financial statements continued

consolidated balance sheet at 31 december 2007

	Note	2007	2006
		RMB'000	RMB'000
Non-current assets			
Property and equipment	12(a)	819,782	441,105
Restricted bank deposits	17	1,247,246	340,875
Deferred tax assets	14(c)	4,718	–
Investment		–	16,522
Total non-current assets		2,071,746	798,502
Current assets			
Properties under development and completed properties held for sale	15	7,286,183	5,737,577
Trade and loan receivables	16	99,857	135,396
Prepaid expenses and other receivables		174,470	298,383
Amounts due from and advances to related parties	27(a)	77,127	378,733
Cash and cash equivalents	18	13,748,792	1,081,050
Total current assets		21,386,429	7,631,139
Current liabilities			
Bank loans	19	1,000,000	–
Accrued construction expenditure and other payables	20	2,342,021	628,803
Sales deposits	21	1,610,957	4,078,715
Amounts due to and advances from related parties	27(b)	–	50,391
Income tax payable	14(a)	2,732,407	1,281,451
Total current liabilities		7,685,385	6,039,360
Net current assets		13,701,044	1,591,779
Total assets less current liabilities		15,772,790	2,390,281

The notes on pages 52 to 101 form part of these financial statements.

consolidated balance sheet at 31 december 2007 (continued)

	Note	2007 RMB'000	2006 RMB'000
Non-current liabilities			
Bank loans	19	1,000,000	800,000
Contract retention payables		103,398	67,501
Deferred tax liabilities	14(c)	51,031	–
Total non-current liabilities		1,154,429	867,501
Net assets		14,618,361	1,522,780
Capital and reserves	22(a)		
Share capital		108,352	79,642
Reserves		14,347,480	1,280,541
Total equity attributable to the equity shareholders of the Company		14,455,832	1,360,183
Minority interests		162,529	162,597
Total equity		14,618,361	1,522,780

Approved and authorised for issue by the board of directors on 9 March 2008.

Directors:
Pan Shiyi Pan Zhang Xin Marita

The notes on pages 52 to 101 form part of these financial statements.

financial statements continued

balance sheet at 31 december 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property and equipment	12(b)	120,311	127,700
Investments in subsidiaries	13	294,423	198,818
Total non-current assets		414,734	326,518
Current assets			
Other receivables		16,591	–
Amounts due from subsidiaries		6,602,898	804,850
Cash and cash equivalents	18	5,700,984	2,328
Total current assets		12,320,473	807,178
Current liabilities			
Other payables		8,022	2,560
Amounts due to subsidiaries		349,112	754,270
Total current liabilities		357,134	756,830
Net current assets		11,963,339	50,348
Total assets less current liabilities		12,378,073	376,866
Net assets		12,378,073	376,866
Capital and reserves	22(b)		
Share capital		108,352	79,642
Reserves		12,269,721	297,224
Total equity		12,378,073	376,866

Approved and authorised for issue by the board of directors on 9 March 2008.

Directors:
Pan Shiyi Pan Zhang Xin Marita

The notes on pages 52 to 101 form part of these financial statements.

consolidated statement of changes in equity for the year ended 31 december 2007

	Note	2007 RMB'000	2006 RMB'000
Total equity at 1 January		1,522,780	1,207,404
Profit for the year		1,987,408	409,730
Net income recognised directly in equity:			
Revaluation surplus		114,166	77,104
Exchange differences on translation of financial statements of foreign operations		(350,465)	–
Net recognised income and expense for the year		1,751,109	486,834
Attributable to			
Equity shareholders of the Company		1,729,361	417,956
Minority interests		21,748	68,878
		1,751,109	486,834
Dividends declared or approved during the year:			
Equity shareholders of the Company	10	–	(33,866)
Minority interests		(18,423)	(137,592)
		(18,423)	(171,458)
Movements in equity arising from capital transactions:			
Shares issued under Global Offering	22(a)	11,914,605	–
Issuing expenses	22(a)	(536,718)	–
Equity settled share-based transactions	22(a)	10,365	–
Capital contributions from minority interests		35,474	–
Acquisitions of minority interests	22(f)	(60,831)	–
		11,362,895	–
Total equity at 31 December	22(a)	14,618,361	1,522,780

The notes on pages 52 to 101 form part of these financial statements.

financial statements continued

consolidated cash flow statement for the year ended 31 december 2007

	Note	2007 RMB'000	2006 RMB'000
Operating activities			
Profit before taxation		3,756,790	787,197
Adjustments for:			
– Depreciation		27,610	18,737
– Interest expense		–	1,180
– Financial income		(334,257)	(22,159)
– Loss on sale of property and equipment		234	2,234
– Equity-settled share-based payment expense		10,365	–
Operating profit before changes in working capital		3,460,742	787,189
Decrease/(increase) in trade and loan receivables		52,130	(99,245)
Decrease/(increase) in prepaid expenses and other receivables		126,735	(76,229)
Decrease/(increase) in properties under development and completed properties held for sale		786,135	(2,418,209)
Decrease/(increase) in amounts due from related parties		128,592	(35,911)
Increase/(decrease) in accrued construction expenditure, other payables and contract retention payables		90,891	(294,719)
(Decrease)/increase in sales deposits		(2,467,758)	1,455,095
(Decrease)/increase in amounts due to related parties		(50,391)	21,447
Cash generated from/(used in) operation		2,127,076	(660,582)
Interest received		297,639	22,159
Interest paid		(127,342)	(3,560)
Income tax paid		(315,824)	(148,426)
Net cash generated from/(used in) operating activities		1,981,549	(790,409)

The notes on pages 52 to 101 form part of these financial statements.

consolidated cash flow statement for the year ended 31 december 2007 (continued)

	Note	2007	2006
		RMB'000	RMB'000
Cash flows from investing activities			
Capital expenditure		(11,694)	(23,764)
Increase in restricted bank deposits		(906,371)	(29,108)
Advances to related parties		(1,384,118)	(421,522)
Repayments from related parties		1,557,132	432,518
Net cash outflow arising from the acquisition of subsidiaries	28	(592,562)	–
Acquisition of minority interests	22(f)	(60,831)	–
Proceeds from sale of an investment		16,522	–
Proceeds from sale of property and equipment		216	–
Entrustment loans provided to a related party		(1,144,200)	–
Repayment of entrustment loans from a related party		1,144,200	–
Net cash used in investing activities		(1,381,706)	(41,876)
Cash flows from financing activities			
Proceeds from bank loans		1,200,000	800,000
Repayment of advances from a third party		(120,000)	(40,000)
Proceeds from ordinary shares issued under the Global Offering		11,914,605	–
Payment of transaction costs on issue of ordinary shares		(532,910)	–
Capital contribution from minority interests		35,474	–
Dividends paid to equity shareholders of the Company		–	(33,866)
Distributions to minority interests		(105,653)	(122,283)
Net cash generated from financing activities		12,391,516	603,851
Net increase/(decrease) in cash and cash equivalents		12,991,359	(228,434)
Cash and cash equivalents at beginning of year		1,081,050	1,309,484
Effect of foreign exchange rate changes		(323,617)	–
Cash and cash equivalents at end of year	18	13,748,792	1,081,050

The notes on pages 52 to 101 form part of these financial statements.

notes to the financial statements

1
Significant accounting policies

(a) Statement of compliance
These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements
The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the subsidiaries carrying out the principal activities of the Group. During the year ended 31 December 2007, the Company changed its functional currency from RMB to Hong Kong dollars ("HKD") after the issue of new shares in HKD under the Global Offering (see Note 22). The consolidated financial statements are prepared on the historical cost basis, except for investment properties (see Note 1(e)) and office premises (see Note 1(f)) as set out in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 29.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Investments in other equity securities

Investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see Note 1(g)).

Investments are recognised /derecognised on the date of the Group commits to purchase / sell the investments or they expire.

(e) Investment property

Investment properties are land and/or buildings which are owned to earn rental income and for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in Note 1(p)(ii).

Property that is being constructed or developed for future use as investment property is classified as property and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

notes to the financial statements continued

1
Significant accounting policies (continued)

(f) Property and equipment

Office premises are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Hotel properties, that are owner-occupied properties from which the Group earns hotel service income, and other items of equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 1(g)).

Changes arising on the revaluation of office premises are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

Cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure incurred after the asset has been placed into operations is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are charged to profit or loss in the period incurred.

Gains or losses arising from the retirement or disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Office premises and hotel properties situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.
– Office equipment 5 years
– Motor vehicles 8 years

Where components of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the components and each component is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investment in subsidiaries (see Note 1(g)(ii))) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. An investment or a receivable is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that property and equipment (other than properties carried at revalued amounts) and investments in subsidiaries may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of their net selling price and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

notes to the financial statements continued

1
Significant accounting policies (continued)

(g) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would be at the end of the financial year (see Notes 1(g)(i) and (ii)).

(h) Properties under development and completed properties held for sale

Properties under development and completed properties held for sale in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see Note 1(r)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed property held for resale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the properties to their present location and condition.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see Note 1(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see Note 1(g)).

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(o)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contributions retirement scheme as required under relevant the People's Republic of China (the "PRC") laws and regulations are charged to profit or loss when incurred.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged / credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

(iii) Termination benefits

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

notes to the financial statements continued

1 Significant accounting policies (continued)

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(o)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 1(o)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with Note 1(o)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

notes to the financial statements continued

1
Significant accounting policies (continued)

(p) Revenue recognition
Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of properties

Revenue from the sale of properties held for sale is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers. Revenue from sales of properties excludes business tax and is after deduction of any trade discounts. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet as sales deposits.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Dividend income

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

(v) Commission income

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(q) Translation of foreign currencies
Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(r) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) Operating lease payments

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised as an integral part of the aggregate net lease payments payable.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format for the purposes of these financial statements. As the operation of the Group are all in the PRC, no geographical segment information is presented.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include properties under development, completed properties held for sale, and trade and loan receivables. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra group transactions

notes to the financial statements continued

1
Significant accounting policies (continued)

(u) Segment reporting (continued)
are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

2
Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Company and the Group.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in Note 25.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Company's and the Group's objectives, policies and processes for managing capital. These new disclosures are set out in Note 22(g).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 30).

3
Turnover and segment reporting

Turnover represents revenue from the sale of property units, net of business tax.

The Group's operating segments are as follows:

(i) Shangdu – phase one

The phase one of Shangdu project is not developed under the brand name of "SOHO". As described in Note 13(i), all the risks and rewards associated with the development of the phase one of Shangdu project is solely borne by Beijing Huayuan Real Estate Co., Ltd. ("Huayuan") and Beijing Shangcheng Real Estate Development Co., Ltd. ("Shangcheng") which manage the phase one of Shangdu project. The profits or losses and net assets relating to the phase one of Shangdu project are included in minority interests.

(ii) SOHO properties

SOHO properties represented other projects which are developed under the brand name of "SOHO". These projects are managed by the directors of the Company.

The operating segments are determined primarily because these projects are managed separately and the properties are developed under different brand names.

	SOHO properties RMB'000	Shangdu phase one RMB'000	Elimination RMB'000	Total RMB'000
2007				
Turnover	6,949,300	4,280	–	6,953,580
Cost of properties sold	(3,153,304)	(3,334)	–	(3,156,638)
Gross profit	3,795,996	946	–	3,796,942
Other operating revenue	90,577	87	–	90,664
Selling expenses	(220,900)	(34)	–	(220,934)
Administrative expenses	(130,224)	(11,661)	–	(141,885)
Other operating expenses	(97,716)	(4)	–	(97,720)
Profit from operations	3,437,733	(10,666)	–	3,427,067
Financial income	333,701	556	–	334,257
Financial expenses	(4,528)	(6)	–	(4,534)
Profit/(loss) before taxation	3,766,906	(10,116)	–	3,756,790
Income tax	(1,769,214)	(168)	–	(1,769,382)
Profit/(loss) for the year	1,997,692	(10,284)	–	1,987,408
Depreciation charged for the year	27,610	–	–	27,610
Segment assets	23,301,216	156,959	–	23,458,175
Segment liabilities	8,707,005	132,809	–	8,839,814
Capital expenditure incurred during the year	11,694	–	–	11,694

notes to the financial statements continued

3
Turnover and segment reporting (continued)

	SOHO properties RMB'000	Shangdu phase one RMB'000	Elimination RMB'000	Total RMB'000
2006				
Turnover	1,443,688	296,624	–	1,740,312
Cost of properties sold	(627,170)	(192,003)	–	(819,173)
Gross profit	816,518	104,621	–	921,139
Other operating revenue	62,682	4,567	–	67,249
Selling expenses	(80,134)	(9,427)	–	(89,561)
Administrative expenses	(79,533)	(13,199)	–	(92,732)
Other operating expenses	(34,825)	(30)	–	(34,855)
Profit from operations	684,708	86,532	–	771,240
Financial income	21,360	799	–	22,159
Financial expenses	(6,110)	(92)	–	(6,202)
Profit before taxation	699,958	87,239	–	787,197
Income tax	(337,298)	(40,169)	–	(377,467)
Profit for the year	362,660	47,070	–	409,730
Depreciation charged for the year	18,737	–	–	18,737
Segment assets	8,098,615	336,026	(5,000)	8,429,641
Segment liabilities	6,610,269	301,592	(5,000)	6,906,861
Capital expenditure incurred during the year	23,764	–	–	23,764

4
Other operating revenue

	Note	2007 RMB'000	2006 RMB'000
Income arising from hotel operations		43,930	18,157
Rental income		9,140	7,777
Commission income	(i)	26,871	35,914
Others		10,723	5,401
		90,664	67,249

(i) Commission income represented the income from the property agency services.

5
Profit before taxation

(a) Financial income and expenses

	2007	2006
	RMB'000	RMB'000
Financial income		
Interest income	314,230	22,159
Net foreign exchange gain	20,027	–
	334,257	22,159
Financial expenses		
Interest on bank and other borrowings wholly repayable within five years	130,403	3,560
Less: Interest expense capitalised into properties under development*	(130,403)	(2,380)
	–	1,180
Bank charges and others	4,534	5,022
	4,534	6,202

* Borrowing costs were capitalised at a rate of 6.30% - 7.56% per annum (2006: 6.30%).

(b) Staff costs

	Note	2007	2006
		RMB'000	RMB'000
Salaries, wages and other benefits		102,562	61,674
Contributions to defined contribution retirement plan		7,060	5,631
Equity-settled share-based payment expenses	24	10,365	–
		119,987	67,305

(c) Other items

	2007	2006
	RMB'000	RMB'000
Depreciation	27,610	18,737
Auditors' remuneration		
– audit services	4,834	2,255
– other services	1,198	–
Operating lease charges in respect of properties	1,709	1,748
Reversal of impairment losses on trade and loan receivables	(1,038)	(621)

notes to the financial statements continued

6
Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	Note	2007 RMB'000	2006 RMB'000
Provision for the year			
- PRC Enterprise Income Tax	14(a)	852,011	215,098
- Land Appreciation Tax	14(a)	909,113	162,369
Deferred tax	14(c)	8,258	–
		1,769,382	377,467

The provision for income tax comprised PRC Enterprise Income Tax and Land Appreciation Tax.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

The provision for PRC Enterprise Income Tax for the Company's subsidiaries in the PRC is based on a statutory rate of 15% to 33% of the taxable income as determined in accordance with the relevant income tax rules and regulations of the PRC during the year.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the Company's subsidiaries in the PRC except for Hainan Redstone Industry Co., Ltd. will be reduced from 33% to 25%, while that applicable to Hainan Redstone Industry Co., Ltd. will gradually increase from 15% to the standard rate of 25% over a five-year transition period, from 1 January 2008.

In accordance with the Land Appreciation Tax Law of the PRC, Land Appreciation Tax is levied at the properties developed by the Group for sale in the PRC. Land Appreciation Tax is charged on the appreciated amount at progressive rates ranged from 30% to 60%.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2007 RMB'000	2006 RMB'000
Profit before taxation	3,756,790	787,197
Income tax computed by applying the tax rate of 33% to profit before taxation	1,239,741	259,775
Tax effect of Land Appreciation Tax deductible for PRC Enterprise Income Tax	(300,007)	(53,582)
Effect of differential tax rate on income	(92,556)	(779)
Tax effect of unused losses not recognised	10,037	8,558
Others	3,054	1,126
Provision for Land Appreciation tax for the year	909,113	162,369
Actual tax expense	1,769,382	377,467

7
Directors' remuneration

Details of directors' remuneration are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (Note (i)) RMB'000	Total RMB'000
2007						
Chairman:						
Pan Shiyi	123	7,612	29	7,764	–	7,764
Executive directors:						
Pan Zhang Xin Marita	123	7,090	–	7,213	–	7,213
Yan Yan	60	2,724	29	2,813	1,068	3,881
Su Xin (appointed on 23 February 2007)	60	2,539	29	2,628	645	3,273
Independent non-executive directors:						
Cha Mou Zing, Victor *	59	–	–	59	–	59
Ramin KHADEM *	82	–	–	82	–	82
Yi Xiqun *	59	–	–	59	–	59
	566	19,965	87	20,618	1,713	22,331

* These directors were appointed on 11 May 2007.

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments RMB'000	Total RMB'000
2006						
Chairman:						
Pan Shiyi	547	2,364	27	2,938	–	2,938
Executive directors:						
Pan Zhang Xin Marita	547	2,251	–	2,798	–	2,798
Yan Yan	–	1,389	27	1,416	–	1,416
	1,094	6,004	54	7,152	–	7,152

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors of the Company waived or agreed to waive any remuneration during the year.

Note:
(i) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 1(m)(ii). Details of these benefits in kind, including the principal terms and number of options granted, are disclosed in Note 24.

notes to the financial statements continued

8
Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2006: three) are directors whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other one (2006: two) individual are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other emoluments	2,490	2,255
Retirement scheme contributions	29	54
Share-based payments	865	–
	3,384	2,309

The emoluments of the one (2006: two) individual with the highest emoluments are within the following bands:

RMB	2007 Number of individuals	2006 Number of individuals
1,000,001-1,500,000	–	2
3,000,001-3,500,000	1	–

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9
Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB988,813,000 (2006: a loss of RMB7,058,000) which has been dealt with in the financial statements of the Company.

10
Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2007 RMB'000	2006 RMB'000
Final dividend proposed after the balance sheet date of RMB0.10 per share (2006: RMB nil per share)	523,241	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2007 RMB'000	2006 RMB'000
Final dividend in respect of the previous financial year approved and paid during the year (2006: RMB0.05 per share)	–	33,866

11
Earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB1,965,660,000 (2006: RMB340,852,000) and the weighted average of 4,120,603,250 ordinary shares (2006: 3,750,000,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Note	2007 ('000)	2006 ('000)
Issued ordinary shares at 1 January	(i)	3,750,000	3,750,000
Effect of share issued under the Global Offering	22(c)(ii)	370,603	–
Weighted average number of ordinary shares		4,120,603	3,750,000

During the years ended 31 December 2007 and 2006, diluted earnings per share are calculated on the same basis as basic earnings per share. The share options granted to the employees did not have dilutive effect as at 31 December 2007.

(i) Pursuant to a written resolution of all the members of the Company passed on 29 May 2007, the Company split ordinary shares at par value of HK$0.10 each into ordinary shares at par value of HK$0.02 each (see Note 22(c)(i)). The basic earnings per share for the years ended 31 December 2007 and 2006 are computed as if the split of shares had taken place at the beginning of the years ended 31 December 2007 and 2006.

notes to the financial statements continued

12
Property and equipment

(a) The Group

	Office premises RMB'000	Hotel properties RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost or valuation:					
At 1 January 2006	64,841	243,927	14,784	2,103	325,655
Additions	–	20,021	2,911	832	23,764
Revaluation surplus	77,104	–	–	–	77,104
Transfer from properties under development and completed held for sale	–	79,943	–	–	79,943
Disposals	–	–	(2,593)	(251)	(2,844)
At 31 December 2006	141,945	343,891	15,102	2,684	503,622
Representing:					
Cost	–	343,891	15,102	2,684	361,677
Valuation -2006	141,945	–	–	–	141,945
	141,945	343,891	15,102	2,684	503,622
At 1 January 2007	141,945	343,891	15,102	2,684	503,622
Additions	–	–	9,550	2,144	11,694
Revaluation surplus	152,221	–	–	–	152,221
Transfer from properties under development and completed held for sale	129,806	113,016	–	–	242,822
Disposals	–	–	(1,217)	(742)	(1,959)
At 31 December 2007	423,972	456,907	23,435	4,086	908,400
Representing:					
Cost	–	456,907	23,435	4,086	484,428
Valuation -2007	423,972	–	–	–	423,972
	423,972	456,907	23,435	4,086	908,400
Accumulated depreciation:					
At 1 January 2006	11,318	24,504	7,335	1,233	44,390
Charge for the year	2,927	12,589	3,034	187	18,737
Written back on disposals	–	–	(512)	(98)	(610)
At 31 December 2006	14,245	37,093	9,857	1,322	62,517
At 1 January 2007	14,245	37,093	9,857	1,322	62,517
Charge for the year	7,389	15,672	4,058	491	27,610
Written back on disposals	–	–	(1,094)	(415)	(1,509)
At 31 December 2007	21,634	52,765	12,821	1,398	88,618
Net book value:					
At 31 December 2007	402,338	404,142	10,614	2,688	819,782
At 31 December 2006	127,700	306,798	5,245	1,362	441,105

(b) The Company

	Office premises RMB'000
Cost or valuation:	
At 1 January 2006	64,841
Revaluation surplus	77,104
At 31 December 2006	141,945
Representing:	
Valuation-2006	141,945
At 1 January 2007 and 31 December 2007	141,945
Representing:	
Valuation-2007	141,945
Accumulated depreciation:	
At 1 January 2006	11,318
Charge for the year	2,927
At 31 December 2006	14,245
At 1 January 2007	14,245
Charge for the year	7,389
At 31 December 2007	21,634
Net book value:	
At 31 December 2007	120,311
At 31 December 2006	127,700

(c) The Group's office premises were revalued as at 31 December 2007 by Beijing Tongxin Properties Revaluation Co., Ltd., a firm of independent qualified valuer in the PRC (2006: by CB Richard Ellis Ltd., a firm of independent qualified valuer in Hong Kong), at their open market value. The revaluation surplus of RMB114,166,000 (2006: RMB77,104,000) has been transferred to the revaluation reserve of the Group, net of deferred tax.

The carrying amount of the office premises of the Group as at 31 December 2007 would has been RMB162,800,000 (2006: RMB35,034,000) had they been carried at cost less accumulated depreciation.

(d) The net book values of office premises and hotel properties in aggregate of RMB806,480,000 as at 31 December 2007 (2006: RMB434,498,000) were under medium-term leases in the PRC.

(e) Certain portion of the Group's hotel properties were pledged against the bank loans, details are set out in Note 19.

notes to the financial statements continued

13 Investments in subsidiaries – the Company

	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	294,423	198,818

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of Company	Place of establishment/ incorporation	Principal activities	Paid-in capital	Attributable equity interest Direct	Attributable equity interest Indirect
Beijing Jianhua Real Estate Co., Ltd. *	Beijing, PRC	Development of Shangdu project	RMB103,970,000	–	Note (i)
Beijing ZhongHongTian Real Estate Co., Ltd. ("ZhongHongTian") *	Beijing, PRC	Development of SOHO Newtown project	US$15,000,000	–	54%
Beijing Redstone Newtown Real Estate Co., Ltd. *	Beijing, PRC	Development of the Commune by the Great Wall project and operation of hotel	US$10,000,000	–	95% Note (ii)
Hainan Redstone Industry Co., Ltd. *	Hainan, PRC	Development of Boao Canal Village project	RMB20,000,000	–	90%
Beijing Redstone Jianwai Real Estate Development Co., Ltd. *	Beijing, PRC	Development of Jianwai SOHO project	US$30,000,000	–	95% Note (iii)
SOHO China Leasing Co., Ltd. **	Beijing, PRC	Property leasing and resale services	US$100,000	–	100% Note (iv)
Beijing SOHO Properties Management Co., Ltd. **	Beijing, PRC	Provision of consulting services	US$8,000,000	–	100%
Beijing Shanshi Real Estate Co., Ltd. *	Beijing, PRC	Development of Phase I of Guanghualu SOHO project	US$38,700,000	–	95% Note (v)
Beijing SOHO Real Estate Co., Ltd. *	Beijing, PRC	Development of Sanlitun SOHO project	US$49,500,000	–	95% Note (vi)
Beijing Chaowai SOHO Real Estate Co., Ltd. *	Beijing, PRC	Development of Chaowai SOHO project	US$20,000,000	90%	9.5%
Beijing Qianxi Real Estate Co., Ltd. ***	Beijing, PRC	Development of Beijing Residency project	RMB96,000,000	–	100% Note (vii)
Beijing Yeli Real Estate Co., Ltd. ***	Beijing, PRC	Development of Phase II of Guanghualu SOHO project	RMB10,000,000	–	100% Note (viii)

* The company is registered as a sino-foreign equity joint venture enterprise in the PRC.
** The company is registered as a wholly owned foreign enterprise in the PRC.
*** The company is registered as a limited liability company in the PRC.

(i) Beijing Jianhua Real Estate Co., Ltd. ("Jianhua")

In 2004, the Company entered into a co-operation framework agreement with Huayuan and Shangcheng to acquire the equity interests in Jianhua which has been engaged in the development of Shangdu project located in Chaoyang District in Beijing. The project is designed to develop in three phases. As at 31 December 2007, the construction work of the phases one, two and three have been completed and the property units sold have been delivered to buyers.

As at 31 December 2007, the Company held 95% of the paid-in capital of Jianhua. However, according to the co-operation framework agreement and the related supplementary agreements signed among the Company, Huayuan and Shangcheng, Huayuan and Shangcheng continue to assume responsibility for the entire development activities of the phase one of Shangdu project, including construction, promotion, sales and property management. The Company is engaged in the development of the phases two and three of Shangdu project, including design, construction, promotion and sales activities and property management. Accordingly, all the risks and rewards associated with the phase one of Shangdu project is solely borne by Huayuan and Shangcheng while those associated with the phases two and three of Shangdu project go to the Company.

Jianhua is accounted for as a subsidiary of the Company and its financial statements are consolidated into the Company's consolidated financial statements since 2004. According to the co-operation framework agreement and the related supplementary agreements, the profits or losses and net assets relating to the phase one of Shangdu project, which are attributable to Huayuan and Shangcheng, are presented as minority interests in the Company's consolidated financial statements (see Note 3(i)).

Although Huayuan and Shangcheng have agreed to indemnify the Company for all damages and losses relating to the phase one of Shangdu project, the Company will remain responsible for all damages and losses relating to the phase one of Shangdu if Huayuan and Shangcheng breach their agreement with the Company.

(ii) Beijing Redstone Newtown Real Estate Co., Ltd. ("Redstone Newtown")

On 1 January 2003, Beijing SOHO Properties Management Co., Ltd., a subsidiary of the Company, entered into a consulting service agreement with Redstone Newtown in connection with the development, construction, marketing, sale, management and funding of the Commune by the Great Wall project. The consulting service agreement effectively gives the Company the unilateral ability to direct the policies and management that guide the ongoing activities, obtain decision-making powers, receive major operating benefits and bear substantive operating risks of Redstone Newtown. As a result, Redstone Newtown is effectively controlled by the Company and its financial statements are consolidated into the Company's consolidated financial statements since 2003. As part of the restructuring of the Group, the Company's equity interest in Redstone Newtown was changed to 95% on 14 September 2007.

(iii) Beijing Redstone Jianwai Real Estate Development Co., Ltd. ("Redstone Jianwai")

The Group acquired a 5% equity interest in Redstone Jianwai from the minority shareholder, Beijing Redstone Industry Co., Ltd. ("Redstone Industry"), a company controlled by Mr. Pan Shiyi, on 15 February 2007. As a result, the equity interest of Redstone Jianwai held by the Group increased to 95%.

(iv) SOHO China Leasing Co., Ltd. ("SOHO China Leasing")

The Group acquired a 20% equity interest in SOHO China Leasing from the minority shareholder, Beijing Liteng Property Consultants Company Limited ("Beijing Liteng"), a company controlled by Mr. Pan Shiyi, on 14 February 2007. As a result, the equity interest of SOHO China Leasing held by the Group increased to 100%.

13
Investments in subsidiaries – the Company (continued)

(v) Beijing Shanshi Real Estate Co., Ltd. ("Shanshi Company")

Shanshi Company was set up as a limited liability company, 80% owned by Mr. Pan Shiyi and 20% owned by Ms. Yan Yan, the Company's executive director and chief financial officer, in the PRC for property development purposes. Pursuant to an arrangement between the Company and Shanshi Company starting from 1 January 2005, which was subsequently confirmed in writing on 15 February 2007, the Company has obtained effective control on Shanshi Company, receives all operating benefits and bears all operating risks of Shanshi Company. Accordingly, Shanshi Company's financial statements have been consolidated into the Company's consolidated financial statements since 2005. As part of the restructuring of the Group, the Company's equity interest in Shanshi Company was changed to 95% on 14 September 2007.

(vi) Beijing SOHO Real Estate Co., Ltd. ("Beijing SOHO")

Beijing SOHO was set up as a limited liability company, 80% owned by Mr. Pan Shiyi and 20% owned by Ms. Yan Yan, the Company's executive director and chief financial officer, in the PRC for property development purposes. Pursuant to an arrangement between the Company and Beijing SOHO starting from 1 January 2005, which was subsequently confirmed in writing on 15 February 2007, the Company has obtained effective control on Beijing SOHO, receives all operating benefits and bears all operating risks of Beijing SOHO. Accordingly, Beijing SOHO's financial statements have been consolidated into the Company's consolidated financial statements since 2005. As part of the restructuring of the Group, the Company's equity interest in Beijing SOHO was changed to 95% on 14 September 2007.

(vii) Beijing Qianxi Real Estate Co., Ltd. ("Beijing Qianxi")

On 2 November 2007, the Company entered into an equity transfer agreement with Huayuan and Beijing Shoulv Huayuan Property Co., Ltd. ("Shoulv Huayuan") to acquire the entire equity interests in Beijing Qianxi, which has been engaged in the development of Beijing Residency project located in Chaoyang District of Beijing.

(viii) Beijing Yeli Real Estate Co., Ltd. ("Beijing Yeli")

On 2 November 2007, the Company entered into an equity transfer agreement with Huayuan and Shangcheng to acquire the entire equity interests in Beijing Yeli, which has been engaged in the development of Mingyuan Mansion project located in Chaoyang District of Beijing.

14
Income tax in the consolidated balance sheet – the Group

(a) Current taxation in the consolidated balance sheet represents:

	Note	2007 RMB'000	2006 RMB'000
PRC Enterprise Income Tax payable			
At the beginning of the year		550,724	457,655
Provision for the year	6(a)	852,011	215,098
Tax paid		(263,576)	(122,029)
Acquired in a business combination	28(a)	5,656	–
At the end of the year		1,144,815	550,724
Land Appreciation Tax payable			
At the beginning of the year		730,727	594,755
Provision for the year	6(a)	909,113	162,369
Tax paid		(52,248)	(26,397)
At the end of the year		1,587,592	730,727
Total income tax payable at the end of the year		2,732,407	1,281,451

(b) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(n), the Group has not recognised deferred tax assets in respect of cumulative tax losses in certain subsidiaries of RMB114,732,000 as at 31 December 2007 (2006: RMB99,801,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant subsidiaries. As at 31 December 2007, RMB30,961,000, RMB5,903,000, RMB17,000,000, RMB22,496,000 and RMB38,372,000 of these tax losses will expire in 2008, 2009, 2010, 2011 and 2012, respectively.

(c) Deferred tax

	Tax losses	Interest expense capitalized	Revaluation of office premises	Total
At 1 January 2007	–	–	–	–
Charged to profit and loss (Note 6(a))	4,718	(12,976)	–	(8,258)
Charged to revaluation reserve	–	–	(38,055)	(38,055)
At 31 December 2007	4,718	(12,976)	(38,055)	(46,313)

	2007 RMB'000	2006 RMB'000
Deferred tax asset recognised on the balance sheet	4,718	–
Deferred tax liability recognised on the balance sheet	(51,031)	–
	(46,313)	–

notes to the financial statements continued

15
Properties under development and completed properties held for sale – the Group

	2007 RMB'000	2006 RMB'000
Properties under development	6,840,802	5,182,050
Completed properties held for sale	445,381	555,527
	7,286,183	5,737,577

(a) The analysis of carrying value of leasehold land included in properties under development for sale and completed properties held for sale is as follows:

	2007 RMB'000	2006 RMB'000
In the PRC		
– long lease	1,884,322	419,170
– medium-term lease	4,047,063	4,090,114
	5,931,385	4,509,284

(b) The amount of properties under development expected to be recovered after more than one year is analysed as follows:

	2007 RMB'000	2006 RMB'000
Properties under development	4,834,619	2,964,708

All of the other properties under development and completed properties held for sale are expected to be recovered within one year.

(c) The cost of properties sold for the year ended 31 December 2007 amounted to RMB3,156,638,000 (2006: RMB819,173,000).

(d) Certain portion of the Group's properties under development for sale and completed properties held for sale were pledged against the bank loans, details are set out in Note 19.

16
Trade and loan receivables – the Group

	Note	2007	2006
		RMB'000	RMB'000
Trade receivables	(i)	99,857	135,396
Loan receivables	(ii)	2,360	3,398
		102,217	138,794
Less: Impairment losses on bad and doubtful debts		(2,360)	(3,398)
		99,857	135,396

(i) These trade receivables are expected to be recovered within one year.

The ageing analysis of trade receivables are as follows:

	2007	2006
	RMB'000	RMB'000
Current or less than 1 month overdue	34,934	109,115
1 to 6 months overdue	32,883	15,366
6 months to 1 year overdue	2,515	2,280
Overdue more than 1 year	29,525	8,635
	99,857	135,396

The Group's credit policy is set out in Note 25(a).

(ii) Loan receivables were arising from the long-term financing arrangements provided by a subsidiary of the Company, Beijing ZhongHongTian Real Estate Co., Ltd. ("ZhongHongTian"), to certain property unit buyers to fund a portion of the initial down payment of the purchase price of the property units. The buyer is thereafter responsible to obtain third party bank financing to pay the remaining balance of the purchase price. The amounts are unsecured, interest bearing and repayable by monthly instalments over a maximum period of 10 years. Interest is charged on the outstanding amount at the prevailing mortgage rate quoted by the People's Bank of China ("PBOC"). An impairment loss on bad and doubtful debts has been made for the whole carrying amount of the loan receivables as at 31 December 2007 and 2006.

notes to the financial statements continued

17
Restricted bank deposits – the Group

(a) The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of the property units. As at 31 December 2007, the Group made a deposit of RMB447,246,000 (2006: RMB340,875,000) as security for settlement of the mortgage instalments under these agreements. Should the mortgagors fail to pay the mortgage monthly instalments, the bank can draw down the security deposits up to the amount of outstanding mortgage instalments and demand the subsidiary to repay the outstanding balance to the extent that the deposit balance is insufficient.

(b) As at 31 December 2007, the Group made a deposit of RMB800,000,000 (2006: RMB nil) in a restricted bank account in relation to a bank facility of the same amount provided to Beijing Danshi Investment Management Co., Ltd. ("Beijing Danshi"), a company controlled by Mr. Pan Shiyi, as disclosed in Note 27(d). Should Beijing Danshi fails to repay any amount which falls due under this bank facility, the bank can draw down the restricted deposit up to the amount overdue. With a written consent from the bank, the Group can use the fund in the restricted bank account.

18
Cash and cash equivalents

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	2,158	2,138	–	–
Cash at bank and other financial institutions	8,890,108	877,817	844,458	2,328
Term deposits	4,856,526	201,095	4,856,526	–
	13,748,792	1,081,050	5,700,984	2,328

19
Bank loans – the Group

As at 31 December 2007, the loan balance represented the RMB2,000,000,000 (2006: RMB800,000,000) bank loan from CITIC Industrial Bank, which was secured by the hotel properties, Commune by the Great Wall project, with a carrying amount of RMB292,707,000 and the land use rights of Sanlitun SOHO project with a carrying value of RMB3,319,773,000. The loan bore a floating interest rate at the base lending rate of the PBOC. RMB1,000,000,000 and RMB1,000,000,000 of the bank loans were repayable in December 2008 and February 2009, respectively.

20
Accrued construction expenditure and other payables – the Group

	Note	2007 RMB'000	2006 RMB'000
Accrued expenditure on land and construction	(i)	1,604,970	275,855
Advances from a third party	(ii)	54,784	174,784
Staff salaries and welfare payables		32,911	33,405
Other taxes payable	(iii)	14,570	12,015
Consideration payable for acquisition of subsidiaries	(iv)	533,390	–
Distribution payable to minority interests		–	87,230
Others		101,396	45,514
		2,342,021	628,803

Notes:
(i) These accrued expenditure payables on land and construction are expected to be settled within a year.

The ageing analysis of accrued expenditure on land and construction is as follows:

	2007 RMB'000	2006 RMB'000
Due within 1 month or on demand	1,214,552	45,124
Due after 1 month but within 3 months	390,418	230,731
	1,604,970	275,855

(ii) The balance represented advances from Jinghua Trust and Investment Co., Ltd. to Jianhua relating to the phase one of Shangdu project, which were interest free, unsecured and had no fixed terms of repayment.

(iii) Other taxes payable comprised urban real estate tax payable, real estate tax payable and withholding tax payable.

(iv) The balance represented consideration payable for the acquisitions of Beijing Qianxi and Beijing Yeli during the year ended 31 December 2007 (see Note 28).

21
Sales deposits – the Group

Sales deposits represented proceeds received on property unit sales that have not been recognised as revenue in accordance with the Group's revenue recognition policy.

notes to the financial statements continued

22
Capital and reserves

(a) The Group

	Note	Share capital RMB'000	Share premium RMB'000
At 1 January 2006		79,642	75,059
Dividends approved in respect of the previous year	10	–	–
Revaluation surpluses on office premises, net of deferred tax	22(d)(iv)	–	–
Profit for the year		–	–
Transfer to general reserve fund	22(d)(v)	–	–
Distributions to minority interests		–	–
At 31 December 2006		79,642	75,059
At 1 January 2007		79,642	75,059
Shares issued under the Global Offering	22(c)(ii)	28,710	11,885,895
Issuing expenses		–	(536,718)
Equity settled share–based transactions	22(d)(ii)	–	–
Exchange difference on translation of financial statements of foreign operations	22(d)(iii)	–	–
Revaluation surpluses on office premises, net of deferred tax	22(d)(iv)	–	–
Transfer to general reserve fund	22(d)(v)	–	–
Profit for the year		–	–
Capital contributions from minority interests		–	–
Acquisition of minority interests	22(f)	–	–
Distributions to minority interests		–	–
At 31 December 2007		108,352	11,424,236

Capital reserve RMB'000	Exchange reserve RMB'000	Revaluation reserve RMB'000	General reserve fund RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
–	–	20,082	82,803	718,507	976,093	231,311	1,207,404
–	–	–	–	(33,866)	(33,866)	–	(33,866)
–	–	77,104	–	–	77,104	–	77,104
–	–	–	–	340,852	340,852	68,878	409,730
–	–	–	28,107	(28,107)	–	–	–
–	–	–	–	–	–	(137,592)	(137,592)
–	–	97,186	110,910	997,386	1,360,183	162,597	1,522,780
–	–	97,186	110,910	997,386	1,360,183	162,597	1,522,780
–	–	–	–	–	11,914,605	–	11,914,605
–	–	–	–	–	(536,718)	–	(536,718)
10,365	–	–	–	–	10,365	–	10,365
–	(350,465)	–	–	–	(350,465)	–	(350,465)
–	–	114,166	–	–	114,166	–	114,166
–	–	–	102,796	(102,796)	–	–	–
–	–	–	–	1,965,660	1,965,660	21,748	1,987,408
–	–	–	–	–	–	35,474	35,474
–	–	–	4,376	(26,340)	(21,964)	(38,867)	(60,831)
–	–	–	–	–	–	(18,423)	(18,423)
10,365	(350,465)	211,352	218,082	2,833,910	14,455,832	162,529	14,618,361

22
Capital and reserves (continued)

(b) The Company

At 1 January 2006
Profit for the year
Dividends approved in respect of the previous year
Revaluation surplus on office premises
At 31 December 2006
At 1 January 2007
Profit for the year
Shares issued under the Global Offering
Issuing expenses
Equity settled share-based transactions
Exchange difference on translation of financial statements
At 31 December 2007

Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000
	79,642	75,059	–	–	20,082	156,529	331,312
	–	–	–	–	–	2,316	2,316
10	–	–	–	–	–	(33,866)	(33,866)
22(d)(iv)	–	–	–	–	77,104	–	77,104
	79,642	75,059	–	–	97,186	124,979	376,866
	79,642	75,059	–	–	97,186	124,979	376,866
	–	–	–	–	–	997,580	997,580
22(c)(ii)	28,710	11,885,895	–	–	–	–	11,914,605
	–	(536,718)	–	–	–	–	(536,718)
22(d)(ii)	–	–	10,365	–	–	–	10,365
22(d)(iii)	–	–	–	(384,625)	–		(384,625)
	108,352	11,424,236	10,365	(384,625)	97,186	1,122,559	12,378,073

notes to the financial statements continued

22
Capital and reserves (continued)

(c) Share capital

	Note	2007 No. of shares ('000)	2007 RMB'000	2006 No. of shares ('000)	2006 RMB'000
Authorised:					
Ordinary shares of HK$0.02 each	(i)	7,500,000		–	
Ordinary shares of HK$0.10 each		–		1,500,000	
Issued and fully paid:					
At 1 January		750,000	79,642	750,000	79,642
Share split	(i)	3,000,000	–	–	–
Shares issued under the Global Offering	(ii)	1,482,413	28,710	–	–
At 31 December		5,232,413	108,352	750,000	79,642

(i) Share split

Pursuant to a written resolution of all the members of the Company passed on 29 May 2007, it was resolved that every issued and unissued ordinary shares of par value HK$0.10 each in the capital of the Company be subdivided into 5 ordinary shares of par value HK$0.02 each such that the Company has thereafter an authorised share capital of HK$150,000,000 divided into 7,500,000,000 ordinary shares of par value HK$0.02 each and an issued share capital of HK$75,000,000 divided into 3,750,000,000 ordinary shares of par value HK$0.02 each.

(ii) Shares issued under the Global Offering

In October 2007, the Company completed the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and issued an aggregate of 1,482,413,000 ordinary shares of par value HK$0.02 each at an offer price of HK$8.30 per share to the public in Hong Kong and other selected institutional and professional investors (collectively, the "Global Offering"). As at 31 December 2007, all shares of the Company are listed on the Stock Exchange.

(iii) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price	2007 Number	2006 Number
8 October 2008 to 7 October 2013	HK$8.3	12,058,000	–

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in Note 24 to the financial statements.

(d) Nature and purpose of reserves

(i) Share premium

The share premium account is governed by the Cayman Companies Law and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to equity shareholders; (b) paying up unissued shares of the Company to be issued to equity shareholders as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the Company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the Company.

No distribution or dividend may be paid to equity shareholders out of share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

The capital reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company (see Note 24) recognised in accordance with the accounting policy adopted for share-based payments in Note 1(m)(ii).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 1(q).

(iv) Revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for office premises in Note 1(f).

The revaluation reserve of the Company in respect of office premises is distributable to the extent of RMB9,869,000 (2006: RMB4,520,000).

notes to the financial statements continued

22
Capital and reserves (continued)

(d) Nature and purpose of reserves (continued)

(v) General reserve fund

Pursuant to the Articles of Association of the Company's subsidiaries in the PRC, appropriations to the general reserve fund were made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. The percentage for this appropriation was decided by the directors of the subsidiaries. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

(vi) Restrictions on payments of dividends

Upon the formation of the Company, the Company will significantly rely on distributions or advances from its subsidiaries to pay any dividends. The ability of these subsidiaries to make distributions to the Company and the Company's ability to receive distributions are subject to applicable legal and other restrictions, including but not limited to restrictions on payment of dividends by PRC companies to non-PRC shareholders and on repatriation of dividends out of the PRC. These restrictions may impact the payment of distributions from the subsidiaries to the Company.

(e) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,122,559,000 (2006: RMB124,979,000), excluding the share premium and the distributable revaluation reserve as disclosed in Note 22(d)(i) and 22(d)(iv), respectively. After the balance sheet date the directors proposed a final dividend of RMB10 cents per ordinary share (2006: RMB nil), amounting to RMB523,241,000 (2006: RMB nil). This dividend has not been recognised as a liability at the balance sheet date.

(f) Acquisitions of minority interests

During the year ended 31 December 2007, the Group acquired the minority interests on certain subsidiaries with an aggregate book value of RMB38,867,000 at a total consideration of RMB60,831,000. The excess of consideration over the book value of RMB21,964,000 was treated as an equity transaction.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can fund its development and construction of real estate projects, and continue to provide returns for shareholders, by pricing properties commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to strictly control the debt level. The Group maintains a strategy on acquiring land only if the project development can commence within a short period of time so as to minimise the time period between acquisition and development of the acquired land, thus the Group's capital can be efficiently deployed.

Consistent with industry practice, the Group monitors its capital structure on the basis of a gearing ratio, which was unchanged from 2006, as defined by the Group, being the total of bank and interest bearing borrowings divided by the total assets. As at 31 December 2007, the gearing ratio of the Group was 8.53% (2006: 9.49%).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23
Employee benefit plan

The Group participates in a defined contribution retirement scheme established by the Beijing Municipal Labour Bureau for its staff. The Group was required to make contributions to the retirement scheme at 20% of the gross salaries of its staff during the years ended 31 December 2007 and 2006.

The Group has no other obligation for the payment of post-retirement benefits beyond the contributions described above.

24
Equity settled share-based transactions

The Company has adopted a Pre-IPO share option scheme and an IPO share option scheme on 14 September 2007, whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at HKD1 consideration to subscribe for shares of the Company. The options vest in a period of three years from the date of grant and are then exercisable within a period of six years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 8 October 2007	1,992,500	Three years from the date of grant	6 years
Options granted to employees:			
– on 8 October 2007	10,065,500	Three years from the date of grant	6 years
Total share options	12,058,000		

notes to the financial statements continued

24
Equity settled share-based transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2007	
	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	–	–
Granted during the year	8.3	12,058
Outstanding at the end of the year	8.3	12,058
Exercisable at the end of the year	8.3	–

The options outstanding at 31 December 2007 had an exercise price of HK$8.3 and a weighted average remaining contractual life of 69 months.

(c) Fair value of share options and assumptions
The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes Model.

	2007
Fair value at measurement date	HK$3.25
Share price	HK$8.30
Exercise price	HK$8.30
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes Model)	45.91%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	4 years
Expected dividends	0.478%
Risk-free interest rate (based on Exchange Fund Notes)	3.9275%

The expected volatility is based on the historic volatility of the share price over the most recent period, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on the dividends policies of the Company.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

25
Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and loan receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. The Group would not release the property ownership certificates to the buyers before the buyers finally settle the selling price.

As at 31 December 2007 and 2006, the Group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

(b) Liquidity risk

Historically, the Group relied to a great extent on proceeds received from pre-sale of property units (sold in advance of the completion of the real estate projects) to fund its development and construction of real estate projects. As there is no assurance that proceeds received from future pre-sales of the Group's current real estate projects will be sufficient to meet the Group's needs, the Group's operating plan requires it to raise additional funds to finance the development and construction of its current real estate projects. If the Group is unable to raise additional equity or debt financing, the Group's expansion plans and operations might need to be curtailed.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board of directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term.

25
Financial instruments (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000
The Group		
Bank loans	2,000,000	(2,156,660)
Contract retention payables	103,398	(103,398)
Accrued construction expenditure and other payables	2,342,021	(2,342,021)
Amounts due to and advances from related parties	–	–
	4,445,419	(4,602,079)
The Company		
Other payables	8,022	(8,022)
Amounts due to subsidiaries	349,112	(349,112)
	357,134	(357,134)

2007			2006				
Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(1,148,890)	(1,007,770)	–	800,000	(899,260)	(50,400)	(848,860)	–
–	(28,348)	(75,050)	67,501	(67,501)	–	(33,751)	(33,750)
(2,342,021)	–	–	628,803	(628,803)	(628,803)	–	–
–	–	–	50,391	(50,391)	(50,391)	–	–
(3,490,911)	(1,036,118)	(75,050)	1,546,695	(1,645,955)	(729,594)	(882,611)	(33,750)
(8,022)	–	–	2,560	(2,560)	(2,560)	–	–
(349,112)	–	–	754,270	(754,270)	(754,270)	–	–
(357,134)	–	–	756,830	(756,830)	(756,830)	–	–

notes to the financial statements continued

25
Financial instruments (continued)

(c) Interest rate risk

The interest rates of the Group's bank loans and interest-bearing advances to/from related parties are disclosed in Note 19 and Note 27, respectively. The annual interest rates of the Group's deposits at bank, ranged from 0.72% to 1.53% as at 31 December 2007 (2006: 0.72% to 1.44%).

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in bank borrowing interest rates for RMB loans, with all other variables held constant, would not have an impact on the profit or loss nor the equity since interest expense would have been capitalised, however it would increase/decrease the Group's properties under development and completed properties held for sale by approximately RMB20,000,000 (2006: RMB8,000,000). In addition, it is estimated that a general increase/decrease of 100 basis points in bank deposit interest rates for foreign currency deposits other than RMB, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB91,691,000 (2006: RMB170,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonable possible change in respective interest rates over the period until the next annual balance sheet date. Management does not expect any reasonable possible change in bank deposit interest rates for RMB deposit over the period until the next annual balance sheet date will have a significant impact on the Group's result or financial position. The analysis is performed on the same basis for 2006.

(d) Foreign currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through PBOC or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All the revenue-generating operations of the Group are transacted in RMB. The Group is exposed to foreign currency risk on financing transactions denominated in currencies other than RMB and HKD. Depreciation or appreciation of the RMB and HKD against foreign currencies can affect the Group's results. The Group did not hedge its currency exposure.

Included in cash and cash equivalents in the consolidated balance sheet and the Company's balance sheet as at 31 December 2007 and 2006, the amounts denominated in currencies other than the functional currency of the entities to which they relate were as follows:

	The Group		The Company	
	2007	2006	2007	2006
	'000	'000	'000	'000
United States Dollars ("USD")	1,255,253	2,173	780,457	298
HKD	2,834	2,196		

A 5%/0.4% strengthening/weakening of RMB/HKD against USD as at the respective balance sheet dates would (decrease)/increase profit after tax by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2007	2006
	RMB'000	RMB'000
5% decrease in RMB	64,401	1,192
5% increase in RMB	(64,401)	(1,192)
0.4% decrease in HKD	31,314	15
0.4% increase in HKD	(31,314)	(15)

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

The method and major assumptions used in estimating the fair value of the share options granted to employees of the Group are set out in Note 24.

26
Commitments and contingent liabilities

(a) Commitments

(i) Commitments in respect of properties under development outstanding at 31 December not provided for in the financial statements were as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Contracted for	1,642,244	411,343
Authorised but not contracted for	1,579,157	2,418,591
	3,221,401	2,829,934

notes to the financial statements continued

26
Commitments and contingent liabilities (continued)

(a) Commitments (continued)

(ii) Capital commitments in respect of the capital contribution to its equity investments outstanding at 31 December not provided for in the financial statements were as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Contracted for	5,394,118	98,390

The balance as at 31 December 2007 related to the acquisition of the interest in Beijing Tianjie Real Estate Development Company Limited ("Beijing Tianjie"), 49% owned by Beijing Danshi, the project company developing the Tiananmen South (Qianmen) project. During the year ended 31 December 2007, the Group has entered into a series of agreements with Beijing Tianjie, Beijing Danshi and the other two equity owners holding 51% equity interests in Beijing Tianjie (the "Agreements"), pursuant to which the Group agreed to acquire, amongst other things, all the rights and liabilities relating to certain land parcels currently held by Beijing Danshi in the Tiananmen South (Qianmen) project. Pursuant to the Agreements, the Group agreed to acquire Beijing Danshi's 49% equity interest in Beijing Tianjie for a consideration of RMB144.1 million. In addition, the Group agreed to bear the obligations to make entrustment loans of RMB3,150 million to Beijing Tianjie, as well as to assume Beijing Tianjie's bank loans in the amount of RMB2,100 million, together an aggregate amount of RMB5,250 million.

(b) Guarantees

The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of property units. The Group has given guarantees on mortgage loans provided to the buyers by these banks. For most residential mortgages, the guarantees will be released when the property title deeds are pledged to banks as security for the respective mortgage loans, which generally take place within one year after the property units are delivered to the buyers. For some mortgage loans, the agreements with the banks stipulate that the guarantee periods are generally 7 to 17 years from the effective date of the mortgage loan contract. The amount of guarantees relating to such agreements was approximately RMB19,514,000 as at 31 December 2007 (2006: RMB39,110,000). The total amount of mortgages outstanding which are guaranteed by the Company's subsidiaries, including the amount of guarantees with guarantee periods of generally 7 to 17 years mentioned above was RMB3,168,320,000 as at 31 December 2007 (2006: RMB2,823,217,000).

(c) Warranty against defects of properties

Properties purchased by buyers are provided with various warranties of term between one to five years against certain defects as stipulated in the PRC laws and regulations which are covered by back-to-back warranties provided by the relevant contractors of the projects.

(d) Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the normal course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the directors believe that any resulting liabilities will not have a material adverse effect on the financial position, liquidity, or operating results of the Group.

27
Material related party transactions

(a) Amounts due from and advances to related parties, and corresponding transactions

Amounts due from and advances to related parties, included in current assets, comprise:

		2007	2006
		RMB'000	RMB'000
Beijing Hongyun Co., Ltd.	(i)	4,109	6,231
Huayuan	(ii)	73,018	182,726
Redstone Industry	(iii)	–	37,314
China Link Group Ltd.	(iv)	–	69,999
Hainan Liteng Property Management Co., Ltd.	(v)	–	15,321
Mr. Pan Shiyi	(vi)	–	63,306
Mrs. Pan Zhang Xin Marita	(vi)	–	131
Others		–	3,705
		77,127	378,733

(i) The balances as at 31 December 2007 and 2006 were in connection with certain property units purchased by Beijing Hongyun Co., Ltd. ("Beijing Hongyun"), an investor of ZhongHongTian, from ZhongHongTian during the year ended 31 December 2002. The balance bore a floating interest rate at the base lending rate of the PBOC, unsecured and will be repaid by 31 December 2008. RMB2,122,000 (2006: RMB nil) was received from Beijing Hongyun during the year ended 31 December 2007.

(ii) The balances as at 31 December 2007 and 2006 represented advances to Huayuan by Jianhua in relation to the phase one of Shangdu project. The advances were interest free, unsecured and had no fixed terms of repayment.

During the year ended 31 December 2007, Jianhua advanced RMB84,000,000 to Huayuan (2006: RMB354,700,000) and received repayment of RMB193,708,000 from Huayuan (2006: RMB378,874,000).

(iii) The balances as at 31 December 2006 represented advances and related interest of RMB22,103,000 due from Redstone Industry, and expenses of RMB15,211,000 paid by the Group on behalf of Redstone Industry. The balance was interest free, unsecured and had no fixed terms of repayment.

During the year ended 31 December 2007, the balance of RMB37,314,000 as at 31 December 2006 was fully repaid by Redstone Industry to the Group.

(iv) China Link Group Ltd. ("China Link") is a company controlled by Mrs. Pan Zhang Xin Marita, Chief Executive Officer of the Company. China Link has set up a bank account in Hong Kong through which overseas buyers of property units of the Group can settle the sales transactions through China Link. The balance was interest free, unsecured and had no fixed terms of repayment.

During the year ended 31 December 2007, no sales proceeds (2006: RMB35,417,000) were received by China Link on behalf of the Group and the balance of RMB69,999,000 as at 31 December 2006 was repaid by China Link to the Group.

notes to the financial statements continued

27
Material related party transactions (continued)

(a) Amounts due from and advances to related parties, and corresponding transactions (continued)

(v) The balance as at 31 December 2006 represented the advances to Hainan Liteng Property Agent Co., Ltd. ("Hainan Liteng"), a company controlled by Mr. Pan Shiyi. The balance was interest free, unsecured and had no fixed terms of repayment.

During the year ended 31 December 2006, the Group advanced RMB7,265,000 to Hainan Liteng and received repayment of RMB270,000 from Hainan Liteng.

The balance of RMB15,321,000 as at 31 December 2006 was repaid by Hainan Liteng to the Group during the year ended 31 December 2007.

(vi) The balances as at 31 December 2006 represented the advances to Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita, which were interest free, unsecured and had no fixed terms of repayment.

During the year ended 31 December 2006, the Group advanced RMB66,822,000 and RMB2,898,000 to Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita, respectively, and received repayment of RMB45,768,000 and RMB4,767,000 from Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita, respectively.

The balances of RMB63,306,000 and RMB131,000 as at 31 December 2006 receivable from Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita, respectively, were repaid by Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita to the Group during the year ended 31 December 2007.

(vii) The maximum balances of the advances made to Mr. Pan Shiyi, Mrs. Pan Zhang Xin Marita and companies controlled by them during the year ended 31 December 2007 and 2006 are as follows:

	2007 RMB'000	2006 RMB'000
Redstone Industry	37,314	38,097
China Link	69,999	69,999
Hainan Liteng	15,321	15,321
Mr. Pan Shiyi	63,306	63,306
Mrs. Pan Zhang Xin Marita	131	2,000

(b) Amounts due to and advances from related parties, and corresponding transactions

Amounts due to and advances from related parties, included in current liabilities, comprise:

		2007 RMB'000	2006 RMB'000
China Link	(i)	–	48,047
Others		–	2,344
		–	50,391

(i) The balance as at 31 December 2006 represented the advances received from China Link. The balances were interest free, unsecured and had no fixed terms of repayment.

During the year ended 31 December 2006, the Group received advances of RMB32,152,000 from China Link.

The balance of RMB48,047,000 as at 31 December 2006 was repaid to China Link by the Group during the year ended 31 December 2007.

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 7 and certain of the highest paid employees as disclosed in Note 8 is as follows:

	2007 RMB'000	2006 RMB'000
Short-term employee benefits	27,012	11,402
Post-employment benefits	176	162
Share-based payments	3,737	–
	30,925	11,564

Total remuneration is included in "Staff costs" (see Note 5(b)).

(d) Other related party transactions

(i) Guarantees provided to the Group

Redstone Industry has entered into agreements with certain banks with respect to guarantees for mortgage loans provided to certain buyers of the Group's properties. Redstone Industry provided guarantees amounting to RMB52,921,000 for these buyers as at 31 December 2007 (2006: RMB94,425,000). The guarantee period generally ranged from 2 to 17 years.

Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita entered into guarantee agreements with a bank with respect to the long-term bank loan amounted to RMB800,000,000 as at 31 December 2006 (Note 19) provided by the bank to the Group. The guarantees were released on 21 June 2007.

(ii) Guarantee provided by the Group

In October 2007, upon the completion of the Global Offering, Crystal Smart International Company Limited ("Crystal Smart"), a company controlled by Mrs. Pan Zhang Xin Marita, made a HKD restricted deposit ("Restricted HKD Deposit"), with an equivalent amount of RMB880,000,000, in Bank of East Asia in Hong Kong to secure a bank facility of RMB800,000,000 provided by the Beijing branch of Bank of East Asia ("BEA Beijing") to Beijing Danshi (the "BEA Loan"). Then, Beijing Danshi used the proceeds from this bank facility to repay part of the entrustment loans obtained from the Group as disclosed in Note 27(d)(iii). Redstone Jianwai and Beijing Danshi entered into a fund monitoring agreement (the "Fund Monitoring Agreement") with BEA Beijing, following the Global Offering, as a back-up arrangement for the security already provided for the repayment of the BEA Loan. Pursuant to the Fund Monitoring Agreement, Redstone Jianwai deposited an amount of RMB800,000,000 in a restricted bank account ("Restricted RMB Deposit") with BEA Beijing as an additional guarantee for the bank facility provided to Beijing Danshi. According to the Fund Monitoring Agreement, BEA Beijing can monitor the Restricted RMB Deposit and in case of default by Beijing Danshi under the loan agreement entered by Beijing Danshi and BEA Beijing, after giving written notice to Redstone Jianwai, BEA Beijing may draw down the Restricted RMB Deposit to settle the amount overdue. However the parties have agreed that no recourse will be had to the Restricted RMB Deposit unless the primary security provided for the BEA Loan, the Restricted HKD Deposit and a deed of charge provided by Crystal Smart, and personal guarantees provided by Mr. Pan Shiyi and Mrs. Pan Zhang Xin Marita, is unable to settle the default amount within one month of such default.

As at 31 December 2007, the Restricted RMB Deposit was recorded as restricted bank deposit as disclosed in Note 17(b).

notes to the financial statements continued

27
Material related party transactions (continued)

(d) Other related party transactions (continued)

(iii) Loans to Beijing Danshi

During the year ended 31 December 2007, the Group lent entrustment loans with an aggregate amount of RMB1,144 million to Beijing Danshi through a bank. The loans bore an interest rate of 3% per annum and were fully repaid by Beijing Danshi during the year. The proceeds of the entrustment loans were used by Beijing Danshi to repay advances from the Group with an aggregate amount of RMB1,384 million, which were interest free and fully repaid by Beijing Danshi during the year ended 31 December 2007.

28
Acquisition of subsidiaries

(a) Acquisition of Beijing Qianxi

In November 2007, the Group acquired the assets and liabilities in Beijing Qianxi, through an acquisition of all of its equity interest (see Note 13(vii)). The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Note	Fair values on acquisition RMB'000
Properties under development		1,420,081
Cash and cash equivalents		1,041
Accrued construction expenditure and other payables		(1,009,466)
Income tax payable	14(a)	(5,656)
Net identifiable assets and liabilities		406,000
Cash consideration		406,000
Consideration payable		(198,940)
Cash acquired		(1,041)
Net cash outflow		206,019

(b) Acquisition of Beijing Yeli
In November 2007, the Group acquired the assets and liabilities in Beijing Yeli, through an acquisition of all of its equity interest (see Note 13(viii)). The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Fair values on acquisition RMB'000
Properties under development	1,027,079
Prepaid expenses and other receivables	2,822
Cash and cash equivalents	7
Accrued construction expenditure and other payables	(308,908)
Net identifiable assets and liabilities	721,000
Cash consideration	721,000
Consideration payable	(334,450)
Cash acquired	(7)
Net cash outflow	386,543

29
Critical accounting judgements in applying the Group's accounting policies

Estimates and judgements used in preparing the accounts are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities mainly include those related to property development activities.

(a) Land appreciation taxes
PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including sales charges, borrowing costs and all property development expenditures.

The Group is subject to land appreciation taxes in the PRC which has been included in income tax of the Group. However, the Group has not finalised its land appreciation tax returns with the tax authorities for certain property development projects of the Group. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

notes to the financial statements continued

29
Critical accounting judgements in applying the Group's accounting policies (continued)

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

As explained in Note 1(h), the Group's properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion in case for properties under development, and the costs to be incurred in selling the properties based on prevailing market conditions.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in provision for properties under development and completed properties held for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

In addition, given the volatility of the PRC property market and the unique nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than estimated at the balance sheet date. Any increase or decrease in the provision would affect profit or loss in future years.

(c) Recognition and allocation of construction cost on properties under development

Development costs of properties are recorded as properties under development during construction stage and will be transferred to profit or loss upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group typically divides the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated market value of each phase as a percentage of the total estimated market value of the entire project, or if the above is not practicable, the common costs are allocated to individual phases based on saleable area.

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

(d) Impairment for property and equipment

If circumstances indicate that the net book value of a property or equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with the accounting policy for impairment of property and equipment as described in Note 1(g)(ii). The carrying amounts of property and equipment are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of selling price and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(e) Valuation of office premises
Office premises are included in the balance sheet at their revalued amount which is assessed by independent qualified valuers as described in Note 12(c). The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date.

(f) Impairment for trade and loan receivables
The Group estimates impairment losses for trade and loan receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the trade and loan receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(g) Derivative financial instruments
In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

30
Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, HKFRS 8, Operating segments, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

31
Ultimate holding company

At 31 December 2007, the directors consider the ultimate holding company to be Capevale Limited, which is incorporated in the Cayman Islands. This entity does not produce financial statements available for public use.

investor relations

After the successful SOHO China Listing on 8 October 2007, we expanded our Investor Relations team to enhance shareholder's understanding of SOHO China and the market we operate in. Our goal is to ensure that the global investor community can receive prompt and accurate information about SOHO China. The Company's senior management is committed to expanding the communication channel with the investor community by actively participating in investor conferences organized by leading international securities houses.

From 12 November to 13 November 2007, we attended Goldman Sachs "The China Investment Frontier Conference 2007". In the two days, we met 12 investors and analysts from Asia, the United States and Europe in one-on-one meetings. Since the IPO, we have hosted sixty-two company visits from the global investment and analyst communities. On 7 December 2007, SOHO invited leading research analysts from all the major financial institutions to join us in Beijing for a company presentation by senior management.

Please visit us at our website www.sohochina.com or contact us at (86) 10-5878-8539.

corporate information

Executive Directors
PAN Shiyi (Chairman)
PAN ZHANG Xin Marita
(Chief Executive Officer)
YAN Yan
SU Xin

Independent non-executive Directors
Dr. Ramin KHADEM
Mr. CHA Mou Zing Victor
Mr. YI Xiqun

Company Secretary
NGAI Wai Fung

Qualified Accountant
ZHAO Guilin, CPA (Aust.), CPA
(Hong Kong)

Members of the Audit Committee
Ramin KHADEM (Chairman)
CHA Mou Zing Victor
YI Xiqun

Members of the Remuneration Committee
Ramin KHADEM (Chairman)
CHA Mou Zing Victor
YI Xiqun

Members of the Compliance Committee
Ramin KHADEM (Chairman)
PAN Shiyi
PAN ZHANG Xin Marita
YAN Yan
SU Xin
CHA Mou Zing Victor
YI Xiqun
ZHAO Guilin
NGAI Wai Fung

Members of the Risk Management Committee
TONG Ching Mau (Chairperson)
LI Hong
XU Yang
XIA Guorong

Authorised Representitives
PAN ZHANG Xin Marita
NGAI Wai Fung

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Wanchai
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Platinum Securities Company
Limited
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Stock Code
410

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