SOHO CHINA
stock code: 410

SOHO China Limited **Annual Report 2008**

SOHO中國CHINA

创造CBD繁华 Building Downtown Prosperity

The board of directors ("the Board") of SOHO China Limited ("Company" or "the Company") announces the audited consolidated annual results of the Company and its subsidiaries (collectively "Group" or "the Group") for the year ended 31 December 2008, which have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountant and the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The 2008 audited consolidated annual results of the Group have been reviewed by the audit committee of the Company and approved by the Board on 12 March 2009.

For the year ended 31 December 2008, the Group achieved a turnover of RMB3,121 million, gross profit of RMB1,544 million and gross profit margin of 49%. Net profit attributable to equity shareholders of the Company for the year ended 31 December 2008 was RMB399 million.

The Board recommended the payment of 130% of the net profit for the year as dividend of RMB0.10 per share for the year of 2008 subject to shareholders' approval at the forthcoming annual general meeting (the "AGM"), which will be held in May 2009. Based on closing prices as at 31 December 2007 (HK$8.10) and 31 December 2008 (HK$3.33), the dividend yield was 1.3% for 2007 and 3.4% for 2008.

Contents

Chairman's Statement

2008 was a year of great uncertainty. Under the enormous impact of the global financial crisis, market conditions became exceptionally complicated and intensely volatile. In this age of pervasive information, there has been exhaustive analysis into the root causes of this, with every sort of prediction or commentary you can imagine coming out. SOHO China too finds itself in the midst of it all, charting the terrain, similar to a vessel navigating its course during a tsunami. In fact, the present chaos and adversity create difficulties for judgment and decision, yet might allow us the best opportunity to self-reflect and carry on with our learning and growth, as we rationally identify our path of business development.

Looking back on 2008, in the first half we were still struck by the central government's great concern over overheating in the property market. Tightening measures continued unabatedly, with numerous new macro-economic controls being introduced to the sector. In June 2008, the People's Bank of China again raised the deposit reserve rate, hugely impacting on the property market. It was not until October 2008 that the central government suddenly revised its real estate-related policies, introducing various remedial measures in conjunction with local governments. Some of these measures, particularly at the local level, were unprecedented, and they were supported by the banks, which were becoming more lenient in providing development loans and mortgages. As of year end, almost all of the outstanding loans of developers were extended, reflecting the strength of government directives to change the market dynamics.

Moreover in 2008, the people of Beijing, and indeed all of China, had devoted tremendous energy, passion and time to the Olympic Games. In order to ensure the highest quality Olympic Games possible, the People's Government of Beijing Municipality suspended construction in Beijing from the end of May. This had the effect of delaying our projects delivery schedule and, consequently, the recognition of sales into our accounts. The Olympics offered us the opportunity to fully participate in the Olympic spirit of unity, sacrifice, and patriotism. At the same time, we must guard against the spread of egotism and self satisfaction, because extreme nationalism impedes the development of a reform and open society, which will then hamper the development of the Company.

Chairman's Statement (continued)

Since the second half of 2008, the global financial markets have been plagued by one piece of bad news after the other, which had evoked diverse set of responses. 2008 certainly saw an abundance of reflection and projection. Amidst such a storm, we too must first ask ourselves whether the direction of development of SOHO China is correct. The test we are facing is huge. The impact on us as a company and the overall real estate market is immense. Do we need to adjust our course of development? This is the question we seek to answer over the year.

The Book of Genesis in the Bible describes in detail the construction of Noah's ark, the advent of the catastrophic Flood and the salvation of the human race. This parable gives the analogy of floodwater, which represents the inundation of extreme materialism, and the ark, which symbolizes the faith of mankind. The analogy applies to 2008, when a flood of extreme materialism wreaked havoc on a global scale. But where is the Noah's ark of today? Where is the "gopher wood" with which to build it? Where is the route to redemption? These are the questions we should contemplate post-2008.

The impact of the global financial crisis on China's economy is not to be underestimated, particularly as China's economy is so export-oriented. Every day, we read about in the news the closure of factories and suspension of construction works, which have caused at least 20 million lost jobs and lower fiscal revenue for local governments.

Over the next three to five years, nearly every industry in China will be saddled with excess capacity. Labor, raw materials, land and etc. will be of excess capacity. Although the government has introduced a 4-trillion yuan stimulus package and the ten industry revitalization plan, which aim to encourage investment, reduce unemployment and maintain social stability, such measures only exacerbate the problem of excess capacity without a much-needed boost to domestic consumption.

In regards to the property sector, the central government is contemplating supplying an additional 9.9 million units of social housing in the next three years, which further adds to the excess supply and squeezes the residential market. However, one should note that the government has demonstrated great determination in stabilizing housing prices. It has introduced a policy of granting a 30% discount on mortgage rates for first-home buyers, and, in his working report for the National People's Congress, Premier Wen Jiabao recently announced the relaxation of restrictions on mortgages for second properties. This measure is expected to increase the demand for residences in several cities such as Beijing and Shanghai, where approximately 85% of its residents have already acquired their first properties.

Nevertheless, the second-hand property market is still quite undeveloped. It is still troubled by the lack of open transaction statistics, the difficult and time-consuming process of applying for mortgages, and extremely high trading fees and taxes. The central government is well aware of such problems and is seeking solutions proactively. However, the absence of a mature system for disclosing market information hinders the realization of the potential of the second-hand property market while holding back the development of the first-hand market.

Under this backdrop, we reviewed several of the key events for SOHO China in 2008.

Last year as always we adhered to the guideline of serving the market where it is most needed, rather than blindly contributing to areas where there is already oversupply. By having insight into the basic demand of the market, we aim to ensure that our judgment is not tainted by a prosperity that is just temporal and built on sand.

In general, the average price for land assets in the PRC fell by 50% in 2008. To a certain extent, this implies that any acquisition that was made during the year would have been seen as a mistake in hindsight's view. Though our posture had been defensive since early 2008, we too did in fact make two acquisitions before the Olympics, namely Chaoyangmen SOHO and ZhongGuanCun SOHO. Especially, when we look at Chaoyangmen SOHO, which we acquired for a consideration of RMB5.5 billion, we see that even though the prices for real estate in the area of East 2nd Ring Road, where Chaoyangmen SOHO is located, have fallen, the drop there is less than the nationwide average. When we consider how highly coveted the Chaoyangmen SOHO location is and SOHO China's strategy of focusing strictly on prime areas, we realize that the acquisition of Chaoyangmen SOHO was really a once-in-a-lifetime opportunity and should be seen for its merits.

ZhongGuanCun SOHO, by comparison, is much smaller. We bought the project in a state of near completion. Having remodeled the interior we are now prepared to launch its sales campaign and promptly realize revenue and profit from it.

Ever since the Olympics Games, the Company's strategy has been to go into hibernation, so to speak, for new acquisitions. We have kept quiet given the market's volatility post-Olympics, buying neither land nor project, switching from small, selective moves to no moves at all. We relied on the value brought from our greatest assets – truthfulness, self-restraint and discipline – in promoting the healthy growth of the Company. That is to say, although we did not make any transactions, we still paid close attention to the changes in the market. And we have been gradually accumulating enough resources so that when the time comes and the market stabilizes, SOHO China would be able to swoop in and make timely acquisitions at low prices. Market fluctuations will prevail for a while and the PRC property market will be clouded by uncertainties stemming from the global economy. But in the coming year, SOHO China intends to use our cash at hand and the merger and acquisition loans provided by banks to pick up prime sites in Beijing and Shanghai markets at heavy discounts. The global economic crisis has created a rare opportunity for us to purchase projects in prime areas at an exceptionally low price.

Our guiding principle is to identify those products that have the highest market demand and to make them available to the market. With regard to product portfolio, there are really two key components: location and product type. In terms of location, we favor the prime, city centre locations; with respect to product type, we focus on commercial and office units, which are not under the same pressure as residentials, as a result of government's sweeping social housing program. The fluctuation of prices of land and property assets in prime areas tends to be comparably lower than other areas, another advantage we see for acquiring prime location assets in the midst of the current financial crisis.

Chairman's Statement (continued)

If the acquisition of land assets is the input to SOHO China, then the sale of properties is our output. Such a process is the foundation of SOHO China operation. Our healthy growth is the result from the balance of our input and output.

In 2008, the pre-sale revenue of SOHO China amounted to RMB7.7 billion, an exceptional result despite the clear market downturn. In fact, at Sanlitun SOHO, we have even raised prices seven times. We were first in Beijing in 2008 for pre-sales, and our success at Sanlitun SOHO has captured great attention both in Beijing and nationwide. We attribute our success there to the project's unique location and its innovativeness. While sales went down dramatically across China since early 2008, our sales-first approach held strong. So, in terms of 'input' and 'output', SOHO China is extremely healthy. In 2008, the pre-sales of SOHO China was RMB7.7 billion, and our cash position was RMB10.7 billion. This shows how solid our financial structure is and how capable we are of overcoming any possible flux or distress in the market.

What is SOHO China's secret weapon, which allows us to excel now and in the future? The answer still lies on our innovative product line and our valuable brand name. Our products reflect our creativity and originality, and give us a leg up for winning customers in a fiercely competitive market. After all, if there is one thing we have learned over the past 15 years of experience, it is that innovative products are the main driving forces for sales. In the future, innovation in green building, will most certainly become a selling point and we will put greater emphasis there. As for branding, it is not just having beautiful, glossy advertisements; rather, it is the core brand message, which for SOHO China is our values of creativity, truthfulness and responsibility.

There is great potential in the Chinese market, which was released by the Reform and the Opening, which continues to this day.

It is true that "confidence is more important than gold and money". As such, SOHO China shows its confidence in its future prospects through our concrete actions. For instance, though construction works were suspended due to the 2008 Olympics Games, causing the recognition of certain profits to be delayed, even so, the Board has decided to allocate 130% of its profit for distribution to shareholders.

Urbanization is the key driver to the growth of China's real estate market. In the process of urbanization, the public needs premises to work and live. SOHO China's main role, in the process of urbanization, has been to supply offices and places of employment. In 2008, the properties developed by SOHO China housed approximately 3,000 companies, which employed a total of around 110,000 staff. However, this only represents a small slice of the pie. We expect an increasing number of people and companies to move to the city in the future. As more people come for study and employment, SOHO China will continue to be the supplier of the places where study and employment occur.

Looking ahead, no market followers are particularly optimistic about 2009. In fact, protectionism is re-emerging as the economic crisis spreads, and we might just find ourselves returning to the dark ages. We do not, however, find the darkness frightening. With the right direction, we believe that we can soon bear witness to the beautiful dawn that comes after the darkest hour.

We now are in the midst of a great transformation. From the old world which is collapsing as the financial crisis unfolds. It is begotten a beautiful new world, foretold of by the prophets and visionaries. This unprecedented economic crisis helps us to realize the fallacies of our ways and allows us to see what the true treasures are: clean air and water, unpolluted earth and foods, the materials and energy required for development, our homes and working places, as well as the spirit of responsibility and the virtue of truthfulness. In fact, monetary assets and other derivatives all stem from these fundamental resources. We have learnt that when we lose the support brought from this foundation, everything is bound to crumble to dust.

All in all, challenges were faced in 2008, and more challenges will present themselves in 2009. We believe that it is inevitable that there will be bumps in the road as we continue to grow, and that these bumps actually serve us well as a part of our maturation.

“Wishing you a morning more beautiful than the day before and a tomorrow more splendorous than yesterday.”

Pan Shiyi
Chairman
12 March 2009

Business Review

During 2008, the Group achieved total pre-sale/sale amount of RMB7,725 million, 92% higher than that of 2007. The Group pre-sold/sold 158,278 square meters (excluding car parks) with an average price of RMB48,718 per square meter, 36% higher than that of 2007.

The Group's 2008 pre-sale/sale amount was mainly generated from three projects: Sanlitun SOHO, Guanghualu SOHO and Beijing SOHO Residences.

Project	Total sellable area* (sq.m.)	Percentage of sellable area sold by 31 December 2008	Total pre-sale/ sale amount by 31 December 2008 (RMB'000)	Pre-sale/sale amount* in 2008 (RMB'000)	Pre-sale/sale area* in 2008 (sq.m.)	Average price in 2008 (RMB/sq.m.)
Sanlitun SOHO	355,164	40%	6,920,644	6,920,644	140,608	49,219
Guanghualu SOHO	59,645	99%	2,235,908	84,385	2,194	38,462
Beijing SOHO Residences	54,325	42%	1,086,148	632,808	12,955	48,847

* total sellable area, pre-sale/sale area and amount exclude that of car parks in the projects.

In 2008, the Group primarily undertook the development of four projects: Guanghualu SOHO, Sanlitun SOHO, Beijing SOHO Residences and Guanghualu SOHO II.

The Group made two acquisitions in 2008: Chaoyangmen SOHO in May 2008 and ZhongGuanCun SOHO in August 2008.

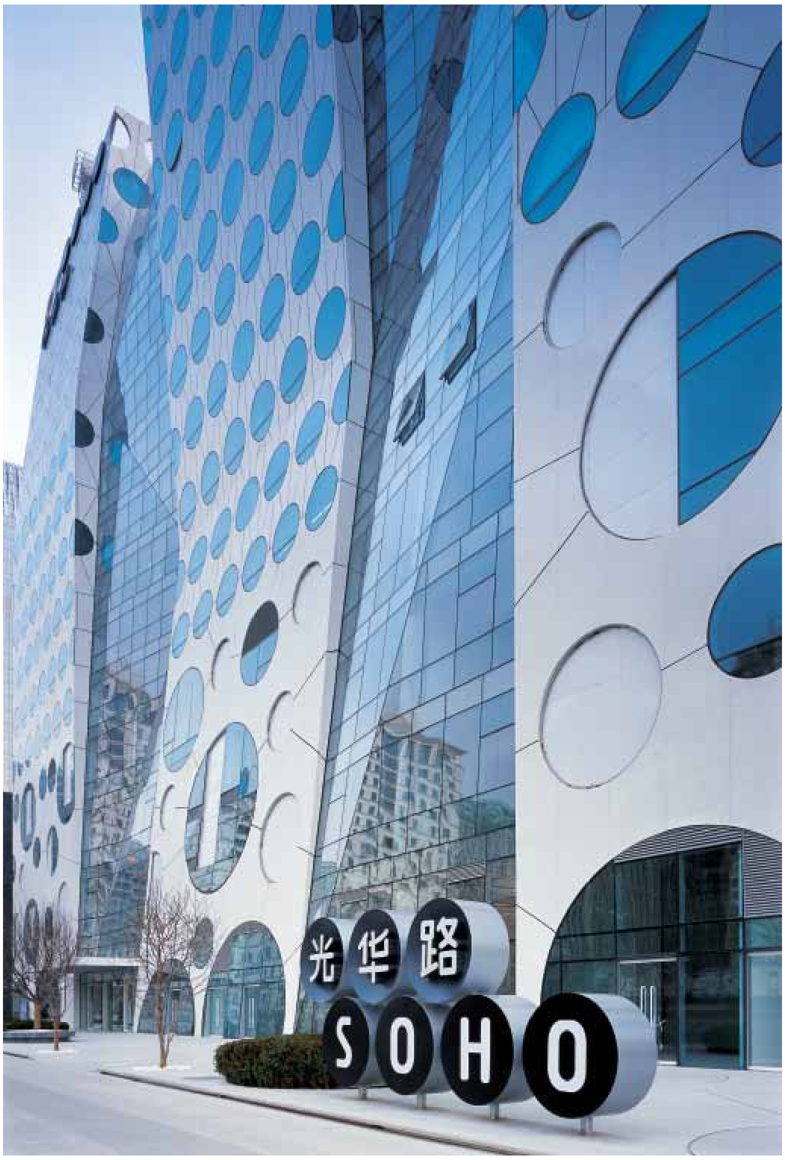
The Group completed in 2008 the development of Guanghualu SOHO and Beijing SOHO Residences, with a total Gross Floor Area ("GFA") of 142,416 square meters. Additionally, Phase I of Chaoyangmen SOHO, with a total GFA of 119,874 square meters, was completed and 53,075 square meters in Phase I was sold prior to our acquisition. As at 31 December 2008, approximately 1,079,822 square meters remain under development by the Group.

Project	**Type**	**GFA** (sq.m.)**	**Group Interest**
Sanlitun SOHO	Retail, office, residential	465,680	95%
Guanghualu SOHO II	Retail, office	190,000	100%
Chaoyangmen SOHO Phase II & III	Retail, office, residential	365,292	100%
ZhongGuanCun SOHO	Retail, office	58,850	100%
Total		1,079,822	

** Estimated area of the projects

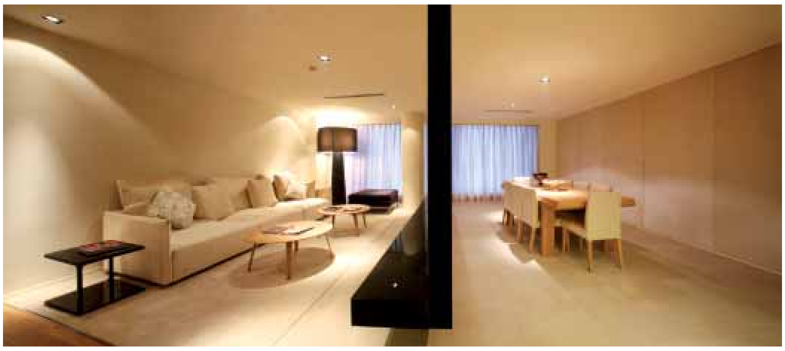
Business Review (continued)
Completed Projects

During 2008, the Group completed the construction of two projects, namely Guanghualu SOHO and Beijing SOHO Residences.



Guanghualu SOHO is located in Beijing Central Business District and close to the China World Trade Center and the Silk Market. Guanghualu SOHO comprises four connected commercial towers with a total GFA of approximately 75,798 square meters. As at 31 December 2008, retail and office space of Guanghualu SOHO was 99% pre-sold/sold, and the project's total pre-sale/sale amount was approximately RMB2,263 million.

Beijing SOHO Residences is located in the Lufthansa Business Circle in central Beijing and is a high-end apartment project with a total GFA of approximately 66,618 square meters. The Company acquired this project on 2 November 2007, less than one month after the listing of the Company's shares ("the SOHO China Listing") on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The total purchase price was RMB1,412 million. On 19 December 2007, Beijing SOHO Residences commenced pre-sale, as the main structure had been completed upon acquisition. As at 31 December 2008, the pre-sale/sale amount reached approximately RMB1,099 million. In 2008, the project achieved an average selling price of RMB48,847 per square meter.



Business Review (continued)
Projects Under Construction

As at 31 December 2008, projects under construction include Sanlitun SOHO, Guanghualu SOHO II, Chaoyangmen SOHO, and ZhongGuanCun SOHO.

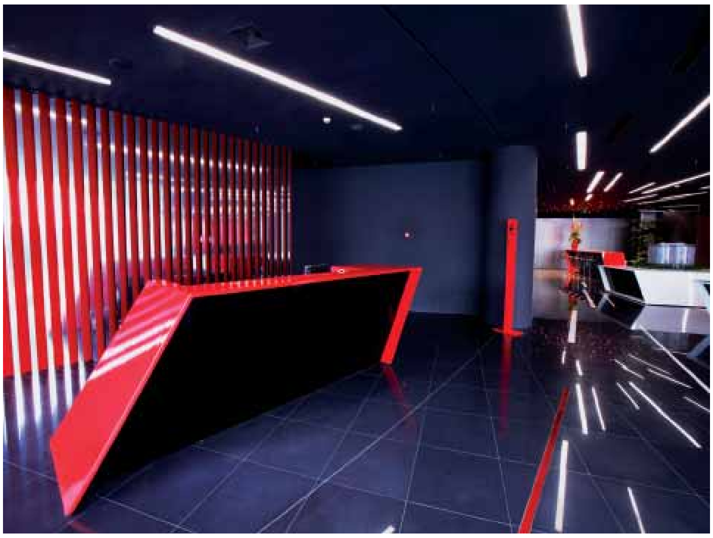
Sanlitun SOHO is located close to the second embassy district and the Workers' Stadium in Beijing. The site is close to the popular Sanlitun entertainment district. With a total planned GFA of approximately 465,680 square meters, Sanlitun SOHO is one of the largest commercial and residential complexes available for sale in central Beijing. It will be developed into five office towers and four residential towers on top of shopping malls, which are linked by an outdoor piazza. Pre-sale of Sanlitun SOHO commenced on 12 July 2008. Within one week, the pre-sale achieved an impressive amount of RMB4,650 million. As at 31 December 2008, the pre-sale amount for Sanlitun SOHO was approximately RMB6,921 million, with an average price of RMB49,219 per square meter and 140,608 square meters pre-sold.

The buyers of Sanlitun SOHO were all domestic clients, with close to 50% from repeat and referral customers. The success of Sanlitun SOHO pre-sale in a difficult market is the result of the project's unique location, its innovative design, and the strong sales and marketing team of the Group. Sanlitun SOHO also clearly demonstrates the resilience of our business model of "build-and-sell" prime commercial projects in city centers.

Guanghualu SOHO II is located in the heart of the Beijing Central Business District with a total planned GFA of approximately 190,000 square meters. The Company acquired this project on 2 November 2007, less than one month after the SOHO China Listing. The Company is in the process of obtaining all necessary permits to commence construction of the project.

Business Review (continued)
Projects Under Construction (continued)

Chaoyangmen SOHO (formerly known as "Kaiheng Center") is located on Chaoyangmennei Dajie in Dongcheng District, Beijing. It has a total construction site area of approximately 68,642 square meters and 500 meters of street front along the East Second Ring Road. It is located at the junction of two subway lines, Line 2 and Line 6. This centrally located project has the potential to be one of the highest pedestrian traffic commercial space under development in Beijing. The project's total planned GFA is approximately 485,166 square meters, making it the Group's second largest project after Jianwai SOHO. In May 2008, the Company acquired Chaoyangmen SOHO at a total consideration of approximately RMB5,544 million. Before the acquisition, about 53,075 square meters (constituting approximately 11% of the total planned GFA) of Phase I of the project had already been sold to Bank of China as its Beijing branch headquarters. The Group have retained Zaha Hadid Architects to design the project into high-quality, innovative commercial space.



ZhongGuanCun SOHO is located at the center of Zhongguancun in Beijing. Zhongguancun area is often referred to as the "Silicon Valley of China". It is where some of the most well known high tech and internet companies in China choose to locate their headquarters. It is also a vibrant and dynamic IT central business district area populated by young start-up small and medium enterprises. ZhongGuanCun SOHO is an office and retail complex with a construction site area of 5,654 square meters, and a total planned GFA of 58,850 square meters. In August 2008, the Company acquired ZhongGuanCun SOHO at a total consideration of RMB890 million. Construction of ZhongGuanCun SOHO was almost completed at the time of acquisition. The Company planned to redesign the interior composition of ZhongGuanCun SOHO, establishing it as one of the landmark buildings of Zhongguancun area. The sale of this project is expected to be launched in the first half of 2009.

Corporate Social Responsibility

SOHO China and SOHO China Foundation (the "Foundation") will continue to build the group's core competitive strength by expanding our social responsibility programs. Through our investments in education and volunteer works initiated by individual employees, we expect to expand our social responsibility programs at both the enterprise and individual level.

In 2008, 40 rural village teachers from Gansu, Tianshui District, came to Beijing and completed a virtues training program funded by the Foundation. The virtues training program provides teachers with the curriculum to properly convey ethical values to their students. The program has been a success with both teachers and students. Given the initial success, we plan to invite over 100 teachers from rural communities undergo the same training program in Beijing in 2009. Our goal is to spread the value of virtuous behavior far and wide for children all over China and raise the ethical spirit of our children.

During our visit to rural village schools, we were struck by the lack of basic hygiene facilities in the schools. In December 2008, SOHO China employees initiated the "Children's Virtues Education – School Hygiene Development Project". Individuals from SOHO China's various departments have been working together devising proper student bathrooms for a pilot program encompassing 10 schools. These 10 bathrooms are for the benefit of over 10,000 students and are a first step to improve basic hygiene behavior and help reduce communal diseases among the children.

SOHO China contributed RMB4.8 million in 2008 to fund the "Sunshine Student Program". The program offers financial assistance to over 1,200 college students from poor families attending 12 Beijing universities. We opened dialogue among students to tighten their bond with the university and community. We expanded communication with teaching institutions in the western provinces to further enhance the connection between education and social charity. We specifically target those charities that support individual's dedication to teaching and the improvement in education.

SOHO China is also an active contributor to disaster relief programs. We assisted in reconstruction efforts in the western provinces, donated computers for schools that can not afford any, and contributed to other foundations that assist people that are disabled and/or living in poverty. In 2008, SOHO China and the Foundation contributed a total of RMB18 million to various charities.

SOHO China will continue to lead by example, with the aim of furthering the realization of the importance of social responsibility programs, expand our participation in various social charity institutions and encourage our employees to initiate programs and actively contribute their time and resources.

Management Discussion and Analysis

Turnover

Turnover (net of business tax) of 2008 was RMB3,121 million, representing a decrease of RMB3,833 million or 55% as compared with RMB6,954 million in 2007. This was mainly attributable to a decrease in the floor area delivered. Due to the impact of the Olympics, the construction of Sanlitun SOHO was delayed, deferring the booking of its pre-sales of approximately RMB4,300 million and net profit of approximately RMB1,000 million in 2008. The floor area delivered (excluding car parks) decreased by 71% from 282,052 square meters in 2007 to 80,598 square meters in 2008. The average selling price of delivered floor area (excluding car parks) increased from RMB24,441 per square meter in 2007 to RMB38,467 per square meter in 2008, representing an increase of 57%. Turnover of 2008 was mainly from Guanghualu SOHO project and Beijing SOHO Residences project.

Cost of property sold

Cost of property sold for 2008 was RMB1,577 million, RMB1,580 million lower than RMB3,157 million in 2007, mainly as a result of decrease in floor area delivered.

Gross profit

Gross profit for 2008 was RMB1,544 million, representing a decrease of RMB2,253 million or 59% as compared with RMB3,797 million in 2007. Gross profit margin for 2008 was 49%, as compared to 55% in 2007.

Selling expenses

Selling expenses for 2008 was RMB238 million, representing an increase of RMB17 million or 8% over RMB221 million in 2007. The increase was mainly the result of the comprehensive promotion and marketing expenditures incurred for Sanlitun SOHO and Beijing SOHO Residences.

Administrative expenses

Administrative expenses for 2008 was RMB243 million, representing an increase of RMB101 million or 71% over RMB142 million in 2007. The significant increase in administrative expenses was mainly because, after the SOHO China Listing, we expanded our business operations and professional management team, and increased the professional service fees attributed to a listed company.

Financial income

Financial income for 2008 was RMB205 million, as compared to RMB334 million for 2007. Financial income for 2007 included interests from large amount of application capital deposited at the time of the SOHO China Listing while there was no such income in 2008. Several interest rate cuts in 2008 also resulted in the decrease of interest income from the Group's cash balance.

Financial expenses

Financial expenses for 2008 was RMB136 million, as compared to RMB4.5 million for 2007. The increase in financial expense was mainly attributable to the increase of exchange loss as a result of exchange rate change.

Profit before taxation

Profit before taxation for 2008 was RMB1,149 million, representing a decrease of RMB2,608 million as compared with RMB3,757 million in 2007. The decrease was mainly due to the lower gross profit as discussed above.

Management Discussion and Analysis (continued)

Income tax

Income tax is comprised of the PRC Corporate Income Tax and the Land Appreciation Tax. The PRC Corporate Income Tax for 2008 was RMB314 million, representing a decrease of RMB538 million as compared with RMB852 million in 2007. Land Appreciation Tax for 2008 was RMB477 million, representing a decrease of RMB432 million as compared with RMB909 million in 2007. Tax decreased with the decreasing profit as well as the reduced income tax rate.

As a result of the implementation of the new PRC Corporate Income Tax Law, the PRC Corporate Income Tax rate applicable to the Group's subsidiaries in the PRC, except for Hainan Redstone Industry Co., Ltd. ("Hainan Redstone"), has been reduced from 33% to 25%, while that applicable to Hainan Redstone gradually increases from 15% to the standard rate of 25% over a five-year transition period, with effect from 1 January 2008.

Net profit

Net profit attributable to the equity shareholders of the Company for 2008 was RMB399 million, representing a decrease of RMB1,567 million as compared with RMB1,966 million in 2007.

Cash and cash equivalents

Cash and cash equivalents as at 31 December 2008 was RMB9,909 million, representing a decrease of RMB3,840 million or 28% as compared with RMB13,749 million as at 31 December 2007. Cash was mainly used for land and project acquisition cost, construction costs, working capital and operating expenses.

Total current assets and liquidity ratio

Total current assets as at 31 December 2008 were RMB24,498 million, representing an increase of RMB3,112 million or 15% over RMB21,386 million as at 31 December 2007. Liquidity ratio (total current assets/current liabilities) slightly decreased from 2.78 as at 31 December 2007 to 2.77 as at 31 December 2008.

Bank loans and collaterals

As at 31 December 2008, the loan balance of the Group was RMB4,233 million, representing 16.2% of the total assets of the Group. This represented a 7.7% increase from the 8.5% debt to total assets ratio as at 31 December 2007. The net debt (bank loans minus cash and bank deposits) to equity ratio was – 46.2% as at 31 December 2008. Of all the loans, RMB1,000 million is due in February 2009, RMB17 million is due in April 2009, RMB216 million is due in December 2009, and the remaining RMB3,000 million is due in September 2011. As at 31 December 2008, bank loans of RMB4,000 million of the Group were collateralized by the Group's land use rights and properties.

Interest rate risk

The Group's bank loans carried a floating interest rate based on the base lending rate of the People's Bank of China ("PBOC"). PBOC decreased the base interest rate for RMB loans five times in 2008, with the one-year RMB lending rate decreased gradually from 7.47% at the beginning of the year to 5.31% at year end. Our interest rate risk is mainly from the floating interest rate of loans, the increase of which may result in an increase in our financing cost.

Foreign currency risk

The Group's operations are mostly conducted in RMB. In 2008, the medium exchange rate of USD against RMB decreased from 7.2996 at the beginning of the year to 6.8346 at year end. The Group was limited to a certain extent in its ability to remit US dollars and HK dollars arising from the listing proceeds from the SOHO China Listing into China and convert them into RMB according to China's foreign exchange control policy, which led to a net exchange loss of RMB124 million in 2008.

Contingent liabilities

As at 31 December 2008, the Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of property units. The amount of guarantees relating to such agreements was RMB2,959 million as at 31 December 2008 (RMB3,168 million as at 31 December 2007).

Capital commitments

As at 31 December 2008, the Group's contracted capital commitments for properties under development was RMB1,661 million (RMB1,642 million as at 31 December 2007). The amount mainly comprised of contracted property development cost and land acquisition cost. As at 31 December 2008, the Group's contracted capital commitments for equity investments was RMB5,394 million, which was related to the acquisition of the equity interest in Beijing Tianjie Property Development Co., Ltd., conditional upon government's approval.

Employees

As at 31 December 2008, the number of employees was 337 (excluding employees for Commune by the Great Wall and Boao Canal Village). Besides, the Company had a sales and leasing team of 250 people.

The Company expanded its senior executives from six to eight. Former Chief Financial Officer, Ms. Yan Yan was promoted to the position of President. Mr. Wang Shaojian Sean was appointed as Chief Financial Officer and an executive director of the Company on 2 June 2008 and 25 June 2008 respectively and Ms. Lai Chor Shan was appointed as General Counsel on 26 May 2008.

Remuneration policy

The Company pursues a simple and efficient remuneration policy which is based on five basic principles: "fairness, competitiveness, incentivisation, combined achievement and legality". The remuneration of the executive directors of the Company is also based on the Company's growth and profit and subject to the market environment.

The remuneration of our employees includes their basic salary and bonuses. Bonuses are determined on a quarterly basis based on performance reviews. Remuneration of sales staff primarily is comprised of commissions linked to sales performance. After the SOHO China Listing, the Company also granted share options to the senior employees pursuant to the share option scheme of the Company adopted by the Company on 14 September 2007 as part of their remuneration packages.

Use of proceeds from the SOHO China Listing

The proceeds from the SOHO China Listing have been partially used to fund the property development business of the Group.

Directors' Report

The directors of the Company ("Directors") are pleased to present their report together with the audited financial statements of the Group for the year ended 31 December 2008.

Principal activities

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

Results and dividends

The Group's profit for the year ended 31 December 2008 and the financial status of the Company and the Group as at that date are set out in the financial statements.

The Board has approved a resolution to recommend the payment of a final dividend of RMB0.10 per share for the year ended 31 December 2008.

Financial information summary

A summary of the published financial results of the Group for the past five 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

	2008	2007	2006	2005	2004
RMB'000					
Turnover	3,121,375	6,953,580	1,740,312	3,842,449	2,332,149
Profit before taxation	1,149,159	3,756,790	787,197	1,653,574	808,781
Income tax	(726,219)	(1,769,382)	(377,467)	(788,526)	(384,408)
Profit for the year	422,940	1,987,408	409,730	865,048	424,373
Attributable to:					
Equity shareholders of the Company	399,073	1,965,660	340,852	709,641	317,898
Minority interests	23,867	21,748	68,878	155,407	106,475
Final dividend proposed after the balance sheet date	518,766	523,241	–	33,866	78,183
Basic and diluted earnings per share (RMB)	0.076	0.477	0.091	0.189	0.085

Consolidated balance sheet as at 31 December

	2008	2007	2006	2005	2004
RMB'000					
Non-current assets	1,572,874	2,071,746	798,502	609,554	472,412
Current assets	24,498,210	21,386,429	7,631,139	5,318,538	5,923,371
Current liabilities	8,846,894	7,685,385	6,039,360	4,654,401	5,905,491
Net current assets	15,651,316	13,701,044	1,591,779	664,137	17,880
Total assets less current liabilities	17,224,190	15,772,790	2,390,281	1,273,691	490,292
Non-current liabilities	3,099,303	1,154,429	867,501	66,287	28,082
Net assets	14,124,887	14,618,361	1,522,780	1,207,404	462,210
Share capital	107,485	108,352	79,642	79,642	79,642
Reserves	13,880,557	14,347,480	1,280,541	896,451	264,993
Total equity attributable to equity shareholders of the Company	13,988,042	14,455,832	1,360,183	976,093	344,635
Minority interests	136,845	162,529	162,597	231,311	117,575
Total equity	14,124,887	14,618,361	1,522,780	1,207,404	462,210

Share capital and share options

Details of changes in the Company's share capital and share options during the year together with the reasons therefore, and details of the pre-IPO share option scheme approved by the shareholders of the Company on 14 September 2007 ("the Pre-IPO Share Option Scheme") and the post-IPO share option scheme approved by the shareholders of the Company on 14 September 2007 ("the Share Option Scheme") are set out in Notes 21 and 23 to the audited consolidated financial statements.

Reserves

Details of changes in the reserves of the Company and the Group during the year are set out in Note 21 to the audited consolidated financial statements.

Purchase, sale or redemption of listed securities of the Company

During the year ended 31 December 2008, the Company repurchased in total 44,756,000 ordinary shares, representing 0.855% of its total issued share capital prior to the repurchase. All of the repurchased shares were duly cancelled. Details of repurchases during the year are set out in Note 21 to the audited consolidated financial statements.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities in the year ended 31 December 2008.

Directors' Report (continued)

Charitable donations

In 2008, the Foundation and the Group contributed RMB18 million to various charities.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights 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 audited consolidated financial statements.

Directors

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

Executive Directors

Mr. Pan Shiyi (Chairman)
Mrs. Pan Zhang Xin Marita (Chief Executive Officer)
Ms. Yan Yan (President)
Mr. Su Xin (Chief Operation Officer)
Mr. Wang Shaojian Sean (Chief Financial Officer) (appointed on 25 June 2008)

Independent non-executive Directors

Dr. Ramin Khadem
Mr. Cha Mou Zing Victor
Mr. Yi Xiqun

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Wang Shaojian Sean, shall retire and be eligible, offered himself for re-election at the AGM.

In accordance with Articles 87(1) and 87 (2) of the Company's Articles of Association, Mr. Su Xin, Mr. Cha Mou Zing Victor and Mr. Yi Xiqun shall retire by rotation, and be eligible, offered themselves for re-election at the forthcoming AGM.

Biographies of Directors and senior management

Executive Directors

Mr. Pan Shiyi
Chairman of the Board
Mr. Pan Shiyi, aged 45, is an executive Director and Chairman of the Board. 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 Marita, the development of all of the Company's twelve projects and the Tiananmen South (Qianmen) Project. Before that, Mr. Pan co-founded Beijing Vantone Co. Ltd. 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 "25 most influential business leaders" in China by Fortune (China) Magazine in 2005, deputy to Beijng's People's Congress in 2007 and Ernst & Young Entrepreneur of the Year China 2008.

Mrs. Pan Zhang Xin Marita
Chief Executive Officer
Mrs. Pan Zhang Xin Marita, aged 44, is an executive Director and the Chief Executive Officer of the Company. Ms. Zhang co-founded Redstone Industry Co., Ltd., the predecessor of the Company, in 1995. Since then she has led, together with her husband Mr. Pan Shiyi, the development of all of our twelve projects and the Tiananmen South (Qianmen) Project.

Ms. Zhang has been selected by the World Economic Forum as a Young Global Leader since 2005. In recognition of Ms. Zhang's efforts in promoting the development of architecture in Asia, Ms. Zhang was awarded the "Special Prize to an Individual Patron of Architectural Award" at La Biennale di Venezia in 2002. She was named among the "World's 100 Most Powerful Women" by Forbes Magazine, 2008. 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
President
Ms. Yan Yan, aged 45, is an executive Director and the Company's President and is responsible for the business development, budgeting and overall management of the Company. Ms. Yan joined the Company in December 1996. Ms. Yan received a Bachelor of Civil Engineering degree from Tianjin University in 1986. She has sixteen years of relevant experience in the real estate development industry in China.

Mr. Su Xin
Chief Operating Officer
Mr. Su Xin, aged 41, is an executive Director and the Company's Chief Operating Officer and is responsible for day-to-day operations of the Company, including sales and human resources. Mr. Su joined the 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 eleven years of relevant experience in the real estate development industry in China.

Directors' Report (continued)

Mr. Wang Shaojian Sean
Chief Financial Officer
Mr. Wang Shaojian Sean, aged 45, is an executive Director and the Company's Chief Financial Officer and is responsible for the financial strategy and management of the Company. Mr. Wang joined the Company in June 2008. He received a Master of Business Administration degree from University of Minnesota and a Bachelor of Science degree from Hamline University. He has in-depth and extensive experience in enterprise management and funds operation. He also has over 10 years' experience in financial operation and project management at various multinational firms listed on the US Stock Market and Nasdaq. Mr. Wang also is a non-executive director of PacificNet Inc., a company listed on Nasdaq.

Independent non-executive Directors

Dr. Ramin Khadem
Dr. Ramin Khadem, aged 64, 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 board of the International Institute of Space Commerce, 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 Chairman of Odyssey Moon Ltd, a lunar enterprise business. 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. Since 1993, he had been acting as the Chief Financial Officer of Inmarsat. Before this, he had held several other posts in Inmarsat, including those of financial director, financial manager and executive officer. Dr. Khadem graduated from the University of Illinois with a B.S. degree in electrical and mechanical engineering and from McGill University with a Ph.D. degree in Economics.

Mr. Cha Mou Zing Victor
Mr. Cha Mou Zing Victor, aged 59, is an independent non-executive Director. He is the Deputy Chairman and Managing Director of HKR International Limited (Stock Code 480 listed on the Stock Exchange) and an alternate independent non-executive director of New World Development Company Limited (Stock Code 0017 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 Bachelor of Science degree.

Mr. Yi Xiqun
Mr. Yi Xiqun, aged 61, is an independent non-executive Director. 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. From 1986 to 1987, Mr. Yi was in charge of the Beijing Municipal Government Economic Structure Reform Committee and from 1987 to 1991, he served as the Chief of the Xicheng District of Beijing. 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 is an non executive director of China Merchants Bank (Stock Code 3968 listed on the Stock Exchange). He is also the vice chairman of the Hong Kong Chinese Enterprises association and Chairman of Capital Enterprises Association. 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 46, is one of our senior vice presidents and oversees project management. Mr. Li joined the Company in 1997. Mr. Li received a Bachelor of Science degree from the School of Architecture, Harbin Institute of Technology in 1985. He has twenty years of relevant experience in the real estate development industry in China.

Mr. Xu Yang
Senior Vice President
Mr. Xu Yang, aged 49, is one of our senior vice presidents and oversees marketing, leasing and customer service. Mr. Xu joined the Company in 1999. Mr. Xu graduated from the University of Science and Technology of Beijing. He has ten years of relevant experience in the real estate development industry in China.

Ms. Lai Chor Shan
General Counsel
Ms. Lai Chor Shan, aged 36, is our General Counsel and oversees legal matters of the Company. Ms. Lai joined the Company in May 2008. Ms. Lai graduated from the University of Hong Kong with a Bachelor of Laws (Honours) in 1995 and a Postgraduate Certificate in Laws (with Distinction) in 1996. She received a Bachelor of Civil Law from the University of Oxford in 1997. Ms. Lai is admitted as a solicitor in Hong Kong and England & Wales. Before joining the Company, Ms. Lai practiced law in two major international law firms for over ten years.

Mr. Zhao Guilin
Qualified Accountant
Mr. Zhao Guilin, aged 45, is a qualified accountant and the financial controller of the Company. He is responsible for our financial management, accounting and audit, taxation, financial reports, bank credit and other day-to-day financial administration. Mr. Zhao has more than twenty years' working experience, and has worked with us for twelve years on a full time basis. Mr. Zhao was 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
Company Secretary
Mr. Ngai Wai Fung, aged 47, is the company secretary of the Company. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently a vice president of The Hong Kong Institute of Chartered Secretaries (HKICS) and the Chairman of its Membership Committee. He is also a fellow of HKICS and the Institute of Chartered Secretaries and Administrators in the 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 the Hong Kong Securities Institute. Mr. Ngai holds 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 the Shanghai University of Finance and Economics.

Directors' Report (continued)

Directors' remuneration

The Directors' remunerations are determined by the Board, as authorized by the 2008 AGM held on 13 May 2008, with reference to Directors' duties, responsibilities and performance as well as the financial results of the Group. Remuneration details of each Director for the year 2008 are set out as follows:

2008	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments (Note)	Total
RMB'000						
Executive Directors						
Pan Shiyi (Chairman)	240	9,264	33	9,537		9,537
Pan Zhang Xin Marita	240	8,399		8,639		8,639
Yan Yan	240	3,796	33	4,069	2,715	6,784
Su Xin	240	3,570	33	3,843	1,800	5,643
Wang Shaojian Sean (appointed on 25 June 2008)	120	1,676		1,796	367	2,163
Independent non-executive Directors						
Ramin Khadem	309			309		309
Cha Mou Zing Victor	220			220		220
Yi Xiqun	220			220		220

Note: These represent the estimated value of share options granted to the Directors under the Pre-IPO Share Option Scheme and the 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(n)(ii) of the audited consolidated financial statements. Details of these benefits in kind, including the principal terms and number of options granted, are disclosed in Note 23 of the audited consolidated financial statements.

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 waived or agreed to waive any remuneration during the year.

The Board has approved the proposal of Chairman and Chief Executive Officer to decrease their salaries by 50%, with effect from January 2009.

Interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2008, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which are required pursuant to section 352 of the SFO to be recorded in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in the Listing Rules, to be notified to the Company and the Stock Exchange, are as follows:

(i) Interests in the ordinary shares of the Company

Name	Personal interests	Family interests	Corporate interests	Number of ordinary shares	Approximate percentage of shareholding
Pan Shiyi	–	3,324,100,000(L)	–	3,324,100,000(L)	64.077%
Pan Zhang Xin Marita	–	–	3,324,100,000(L)	3,324,100,000(L)	64.077%
Yan Yan	2,143,500(L) (Note 2)	–	–	2,143,500(L)	0.0413%
Su Xin	1,443,000(L) (Note 3)			1,443,000(L)	0.0278%
Ramin Khadem	300,000(L)	–	–	300,000(L)	0.0058%
Wang Shaojian Sean	500,000(L) (Note 4)	–	–	500,000(L)	0.0096%

Notes:

(1) "L" represents the Directors' long position in underlying securities.

(2) These are interest in the underlying shares, pursuant to which (i) 1,242,500 options were granted under the Pre-IPO Share Option Scheme; and (ii) 901,000 options were granted on 30 January 2008 under the Share Option Scheme.

(3) These are interest in the underlying shares, pursuant to which (i) 750,000 options were granted under the Pre-IPO Share Option Scheme; and (ii) 693,000 options were granted under the Share Option Scheme on 30 January 2008.

(4) These are interest in the underlying shares, pursuant to which the options were granted under the Share Option Scheme on 30 June 2008.

Directors' Report (continued)

(ii) Interests in the ordinary shares of the Company's associated corporations

Name	Name of associated corporation	Nature of interest	Share capital (USD)	Approximate percentage of shareholding
Pan Shiyi	Beijing Redstone Jianwai Real Estate Development Co. Ltd.	indirect	1,275,000	4.25%
	Beijing SOHO Real Estate Co. Ltd.	beneficial owner	2,475,000	5.00%
	Beijing Redstone Newtown Real Estate Co. Ltd.	beneficial owner	500,000	5.00%
	Beijing Shanshi Real Estate Company Limited	beneficial owner	1,935,000	5.00%
Yan Yan	Beijing Redstone Jianwai Real Estate Development Co. Ltd.	indirect	225,000	0.75%

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2008, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required pursuant to section 352 of the SFO to be recorded in the register referred to therein, or pursuant to Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2008, 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:

Name	Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Pan Zhang Xin Marita	beneficiary of trust	3,324,100,000(L)	64.077%
HSBC International Trustee Limited (Note 2)	trustee	3,327,009,000(L)	64.133%
Capevale Limited	interests of controlled corporation	3,324,100,000(L)	64.077%
Boyce Limited (Note 3)	beneficial owner	1,662,050,000(L)	32.039%
Capevale Limited (Note 4)	beneficial owner	1,662,050,000(L)	32.039%

Notes:

(1) "L" represents shareholders' long position in underlying securities.

(2) 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, a company incorporated in the Cayman Islands. HSBC International Trustee Limited holds 3,324,100,000 shares under the Trust for the benefit of the beneficiaries of the Trust, including Mrs. Pan Zhang Xin Marita. Each of Boyce Limited and Capevale Limited, both incorporated in the British Virgin Islands, is the registered owner of 1,662,050,000 shares, or approximately 32.039% the Company's shares.

(3) Boyce Limited, incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Capevale Limited, a company incorporated in the Cayman Islands. Mrs. Pan Zhang Xin Marita is the sole director of Boyce Limited.

(4) Capevale Limited, incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Capevale Limited, a company incorporated in the Cayman Islands. Mrs. Pan Zhang Xin Marita is the sole director of Capevale Limited.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2008, none of any person who had interest or short position in the shares and underlying shares of the Company which were required, pursuant to section 336 of the SFO, to be recorded into the register referred to therein.

Directors' interests in contracts of significance

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

Directors' interests in competing business

Save as disclosed in the Company's prospectus dated 21 September 2007, as at 31 December 2008, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

Directors' rights to acquire shares of the Company

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 any Directors to acquire such rights in any other body corporate.

Directors' Report (continued)

Share Option Schemes

The Company has adopted the Share Option Scheme on 14 September 2007, which shall be valid and effective for a period of ten years commencing from 14 September 2007. The purpose of the Share Option Scheme is to provide the participants who have been granted options (the "Options") under the Share Option Scheme to subscribe for shares with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company for the benefit of the Company and shareholders as a whole. The Share Option Scheme will provide the Company with a flexible means of retaining, motivating, rewarding, remunerating, compensating and/or providing benefits to the participants. Under the Share Option Scheme, the Board may make an offer to (i) any Directors (including executive Directors, non-executive Directors and independent non-executive Directors), employees and officers of any member of our Group and (ii) any advisers, consultants, agents, business partners, joint venture business partners and service providers of any member of the Group (collectively, these listed in (ii) being the "Business Associate"), as the Board may in its absolute discretion select, to take up the Options (collectively the "Participants"). The amount payable by a Participant upon acceptance of a grant of Options is HKD1.00.

Unless approved by shareholders the total number of shares issued and to be issued upon exercise of the Options granted to each Participant (including exercised, cancelled and outstanding Options) under the Share Option Scheme or any other share option scheme adopted by the Company in any twelve-month period must not exceed 1% of the shares in issue. Any further grant of the Options which would result in the number of shares issued as aforesaid exceeding the said 1% limit will be subject to prior shareholders' approval with the relevant Participant and his associates (as defined in the Listing Rules) abstaining from voting. The period within which the Options may be exercised shall expire no later than ten years from the relevant date on which the offer of the grant of an Option is made to a Participant.

The subscription price of any Option granted under the Share Option Scheme may be determined by the Directors provided that it shall be no less than the higher of (i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the offer date; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the offer date; and (iii) the nominal value of a share on the date of grant.

As at 31 December 2008, the number of shares available for issue and remained outstanding under the Share Option Scheme was 7,734,000 shares (2007: 0 shares) representing 0.15% (2007: 0%) of the issued share capital of the Company, 605,000 share options were cancelled during the year.

Details of the Options granted under the Share Option Scheme and remain outstanding as at 31 December 2008 are as follows:

			Number of Options				
Name and class of grantees		Date of grant	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2008
(1)	Directors						
	Yan Yan	30 January 2008 (Note 1)	901,000	–	–	–	901,000
	Su Xin	30 January 2008 (Note 1)	693,000	–	–	–	693,000
	Wang Shaojian Sean	30 June 2008 (Note 2)	500,000	–	–	–	500,000
(2)	Other employees	30 January 2008 (Note 1)	5,665,000	–	605,000	–	5,060,000
	Other employees	30 June 2008 (Note 2)	580,000	–	–	–	580,000
	Total		8,339,000	–	605,000	–	7,734,000

Notes:

(1) Details of Options:

Number of Options granted	Exercise period	Exercise price per share HKD	Closing price per share immediately prior to the grant date HKD
7,259,000	30 January 2009 to 29 January 2014 *	6.10	5.87

(2) Details of Options:

Number of Options granted	Exercise period	Exercise price per share HKD	Closing price per share immediately prior to the grant date HKD
1,080,000	30 June 2009 to 29 June 2014 **	4.25	4.34

* The Options granted on 30 January 2008 are exercisable from the commencement of the exercise periods until the expiry of the Options which is on 29 January 2014. One-third of such Options are exercisable after the expiry of the first year from the date of grant, a further one-third is exercisable after the expiry of second year from the date of grant, and the remaining one-third is exercisable after the expiry of third year from the date of grant.

** The Options granted on 30 June 2008 are exercisable from the commencement of the exercise periods until the expiry of the Options which is on 29 June 2014. One-third of such Options are exercisable after the expiry of the first year from the date of grant, a further one-third is exercisable after the expiry of second year from the date of grant, and the remaining one-third is exercisable after the expiry of third year from the date of grant.

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 14 September 2007, the terms of which are substantially the same as the terms of the Share Option Scheme except that:

(i) the exercise price per share under the Pre-IPO Share Option Scheme shall be equal to the offer price per share upon initial public offering of the Company's shares;

(ii) the term of the Pre-IPO Share Option Scheme is six years;

(iii) the total number of shares which may be issued upon the exercise of all Options granted under the Pre-IPO Share Option Scheme is 12,058,000 shares, representing approximately 0.23% of the enlarged issued share capital of the Company after completion of the Global Offering; and

(iv) save for the Options which have been granted, no further Options will be granted on or after the date of the SOHO China Listing, as the right to do so will end upon the SOHO China Listing.

As at 31 December 2008, the number of shares available for issue and remained outstanding under the Pre-IPO Share Option Scheme was 11,326,365 shares (2007: 12,058,000 shares) representing 0.22% (2007: 0.23%) of the issued share capital of the Company. 731,635 share options were cancelled during the year.

Directors' Report (continued)

Details of the outstanding Options granted under the Pre-IPO Share Option Scheme, are as follows:

Name and class of grantees	Granted on 14 September 2007 (Note)	Outstanding as at 1 January 2008	Number of Options Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2008
(1) Directors						
Yan Yan	1,242,500	1,242,500	–	–	–	1,242,500
Su Xin	750,000	750,000	–	–	–	750,000
(2) Employees of the Group	10,065,500	10,065,500	–	731,635	–	9,333,865
	12,058,000	12,058,000	–	731,635	–	11,326,365

Note: All the Options granted on 14 September 2007 under the Pre-IPO Share Option Scheme can be exercised at the price of HK$ 8.3 per share. All the Options under the Pre-IPO Share Option Scheme cannot be exercised within the first twelve months after the date of the SOHO China Listing. The Options granted under the Pre-IPO Share Option Scheme on 14 September 2007 are exercisable for the period from 8 October 2008 until the expiry of Options which is on 7 October 2013. One-third of such Options are exercisable after the expiry of the first year from the date of grant, a further one-third is exercisable after the expiry of second year from the date of grant, and the remaining one-third is exercisable after the expiry of third year from the date of grant.

Sufficiency of public float

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

Code of corporate governance practices

In the opinion of the Directors, the Company has been in compliance with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, throughout the accounting period covered by this annual report.

Material legal proceedings

To the knowledge of the Directors, there is no material legal proceeding in 2008.

Auditor

The consolidated financial statements of the Group have been audited by KPMG. A resolution for their re-appointment as auditor of the Group for the next financial year will be proposed at the forthcoming AGM.

On behalf of the Board
Pan Shiyi, Chairman
Hong Kong
12 March 2009

Connected Transactions

During the year, the Group had the following continuing connected transactions with connected persons of the Company within the meaning of the Listing Rules. Details of the continuing connected transactions were disclosed in the prospectus of the initial public offering of the Company's shares dated 21 September 2007 (the "Prospectus") under the heading "Relationship with Our Controlling Shareholders and Founders". The status of the continuing connected transactions as at 31 December 2008 is set out below.

1. Continuing connected transactions for which waiver had been sought from strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules

   (a) Property purchase contracts between Beijing Zeli Investment Co., Ltd. ("Beijing Zeli") and Beijing Zhonghongtian Real Estate Co. Ltd. ("Zhonghongtian")

   As disclosed in the Prospectus, the total outstanding amount under the property purchase contracts and their supplemental agreements was RMB15,572,207 as at 23 July 2007, 50% of which was repayable by Beijing Zeli on 30 June 2008 and the remaining 50% was repayable on 31 December 2008. The outstanding amount bears an interest at the prevailing lending rate of the People's Bank of China ("PBOC"). According to the third supplemental agreement dated 23 July 2007, any outstanding amount which remained unpaid by 31 December 2008 may be set off by the dividends or distributions declared by Zhonghongtian in the future. In accordance with the terms set out in the supplemental agreement, the Group did not receive any payment or interest during the year ended 31 December 2008 and the aggregate outstanding amount under the supplemental agreement as at 31 December 2008 did not exceed the amount disclosed in the Prospectus.

   (b) Property purchase contracts between Beijing Hongyun Co., Ltd. ("Hongyun") and Zhonghongtian

   As disclosed in the Prospectus, the total outstanding amount under the property purchase contracts and their supplemental agreements was RMB3,916,128 as at 24 July 2007, 50% of which was repayable by Hongyun on 30 June 2008 and the remaining 50% was repayable on 31 December 2008. The outstanding amount bears interest at PBOC's prevailing lending rate. According to the third supplemental agreement dated 24 July 2007, any outstanding amount which remained unpaid by 31 December 2008 may be set off by the dividends or distributions declared by Zhonghongtian in the future. In accordance with the terms set out in the supplemental agreement, the Group did not receive any payment or interest during the year ended 31 December 2008 and the aggregate outstanding amount under the supplemental agreement as at 31 December 2008 did not exceed the amount disclosed in the Prospectus.

   (c) Four connected transactions between the Group and Ms. Yan Yan and her associates

   As disclosed in the Prospectus, Ms. Yan Yan and her associates entered into four purchase contracts with the Group to purchase one unit in Chaowai SOHO, one unit in Jianwai SOHO and two units in SOHO Shangdu. Ms. Yan Yan and her associates settled part of the purchase prices for these four units by way of mortgages which are guaranteed by the Group. The guarantee provided by the Group for Zen Investment Company Limited was terminated on 26 September 2008. The guarantees provided by the Group during the year ended 31 December 2008 were in accordance with the relevant terms of the property purchase contracts, and the amounts of the guarantees provided by the Group during the year ended 31 December 2008 did not exceed the amounts disclosed in the Prospectus.

Connected Transactions (continued)

(d) Three connected transactions between the Group and Mr. Su Xin

As disclosed in the Prospectus, Mr. Su Xin entered into three purchase contracts with the Group to purchase one unit in each of Jianwai SOHO, SOHO Shangdu and SOHO Newtown. Mr. Su Xin settled part of the purchase prices for these three units by way of mortgages which are guaranteed by the Group. The guarantee provided by the Group for Mr. Su Xin in respect of his purchase of the Jianwai SOHO unit was terminated on 21 March 2008. The guarantees provided by the Group during the year ended 31 December 2008 were in accordance with the relevant terms of the property purchase contracts, and the amounts of the guarantees provided by the Group during the year ended 31 December 2008 did not exceed the amounts disclosed in the Prospectus.

2. Continuing connected transactions for which waiver had been sought from strict compliance with the announcement requirements and independent shareholders' approval requirements under Rule 14A.47 and 14A.48 of the Listing Rules

(a) Agreements in relation to acquisition of equity interest in Beijing Tianjie Real Estate Development Company Limited ("Beijing Tianjie")

As disclosed in the Prospectus, the Group entered into a number of agreements in relation to the acquisition of equity interest in Beijing Tianjie, including:

- Equity Transfer Agreement dated 16 May 2007 between Beijing Danshi, SOHO China (BVI-9) Limited ("BVI-9"), State-owned Assets Supervision and Administration Commission under the People's Government of Chongwen District of Beijing and Beijing Chongyuan Investment Co., Ltd.

- Payment in the total sum of RMB3.15 billion from Redstone Jianwai to Beijing Tianjie pursuant to the Second Supplemental Agreement dated 14 May 2007 and the Fourth Supplemental Agreement dated 11 September 2007

- Transfer of Guanghezhalou land parcel from Beijing Tianjie to Beijing Qianmen Tianshi Property Development Company Limited pursuant to the Third Supplemental Agreement dated 6 June 2007

- Interim Agreement between Mr. Pan, Ms. Yan Yan, Beijing Danshi, Redstone Jianwai, BVI-9 and the Company

As at 31 December 2008, all of the above agreements are pending for PRC government approval and no payment or transfer of the equity interest in Beijing Tianjie was made by the Group.

(b) Project Management Agreement between Beijing SOHO Properties Management Co., Ltd. ("Beijing SOHO Properties") and Beijing Danshi

As disclosed in the Prospectus, Beijing SOHO Properties entered into a Project Management Agreement with Beijing Danshi, pursuant to which Beijing SOHO Properties provides certain services to Beijing Danshi for a service fee equal to five per cent of the estimated total construction costs for the Qianmen project during the term of the agreement. No service fee was received by the Group during the year ended 31 December 2008.

The auditor of the Company has confirmed to the Board on matters stated in Rule 14A.38 of the Listing Rules in relation to the above continuing connected transactions. The Independent non-executive Directors 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.

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 had been in compliance with the code provisions of the Code on Corporate Governance Practices (the "Code Provisions") contained in Appendix 14 to the Listing Rules for the year ended 31 December 2008.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions carried out by the Directors. The Company had made specific enquiry to all Directors and all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2008.

Board of Directors

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 is also responsible for approving and overseeing the overall strategies and policies of the Company, approving the annual budget and business plans, assessing the Company's performance and supervising the work of the senior management.

The Board is currently comprised of eight Directors, including five executive Directors, namely Mr. Pan Shiyi (Chairman), Mrs. Pan Zhang Xin Marita (Chief Executive Officer), Ms. Yan Yan, Mr. Su Xin and Mr. Wang Shaojian Sean; and three independent non-executive Directors, namely Dr. 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 and senior management" of this report).

Regular Board meetings are held at least four times a year (at quarterly intervals) and any ad hoc meeting will be held when necessary. At least fourteen days notice will be given to all the Directors prior to any Board meeting and any relevant materials to be presented to a Board meeting will be provided to Directors at least three days before such Board meeting. 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 AGM 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.

The Chairman of the Board, Mr. Pan Shiyi, is the husband of Mrs. Pan Zhang Xin Marita, an executive Director and the Chief Executive Officer. Except for disclosed above, the Board members have no financial, business, family or other material/relevant relationships with each other.

The Board 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.

Corporate Governance Report (continued)

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.

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.

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 commencing from 11 May 2008 to 31 December 2009.

Pursuant to the guidelines provided in Rule 3.13 of the Listing Rules, the Company has received the confirmation 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.

Appointment of Directors and change in senior management

As approved by the Board, Mr. Wang Shaojian Sean was appointed as an executive Director with effect from 25 June 2008; Ms. Yan Yan was appointed as the President of the Company with effect from 25 June 2008. As further approved by the Board, Mr. Wang Shaojian Sean was appointed as the Chief Financial Officer, replacing Ms. Yan Yan, with effect from 2 June 2008. Ms. Lai Chor Shan was appointed as the Company's General Counsel with effect from 26 May 2008.

Board meetings

In 2008, five Board meetings were held by the Company and below is the attendance of each of the Directors at Board meetings:

Directors	Attendance/ No. of Meetings
Executive Directors	
Pan Shiyi	5/5
Pan Zhang Xin Marita	5/5
Yan Yan	5/5
Su Xin	5/5
Wang Shaojian Sean (appointed on 25 June 2008)	2/2 (Note)
Independent non-executive Directors	
Ramin Khadem	5/5
Cha Mou Zing Victor	5/5
Yi Xiqun	3/5

Note: Two Board meetings were held during the period from 25 June 2008 to 31 December 2008.

During Board 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 meetings of the Board committees 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 terms of reference 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.

Corporate Governance Report (continued)

Audit committee

The audit committee comprises 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 Listing Rules.

The audit committee is authorized by the Board to review the relevant financial reports and to give recommendations and advices, 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 internal control procedures effectively.

In 2008, two meetings were held by the audit committee and below is the attendance of each of the committee members:

Committee Members	Attendance /No. of Meetings
Ramin Khadem	2/2
Cha Mou Zing Victor	2/2
Yi Xiqun	2/2

The audit committee had reviewed the internal audit plan report submitted by the internal audit department and proposed to the Board recommendations on risk and internal control matters. The audit committee had also reviewed the interim results of the Company for the six months ended 30 June 2008 and the audited consolidated annual results of the Company for the year ended 31 December 2008 and considered that the Company had complied with all applicable accounting standards and requirements and had made adequate disclosure.

The audit committee had reviewed the auditor's fee for the year 2008, and recommended the Board to re-appoint KPMG as auditor of the Company for the year 2009, subject to the approval of shareholders at the forthcoming AGM.

Remuneration committee

The remuneration committee comprises three independent non-executive Directors, namely Mr. Cha Mou Zing Victor, Dr. Ramin Khadem, and Mr. Yi Xiqun. The committee is chaired by Mr. Cha Mou Zing Victor. The remuneration committee is mainly responsible for appraising the performance of the executive 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 to the Board.

In 2008, two meetings were held by the remuneration committee and below is the attendance of each of the committee members:

Committee Members	Attendance /No. of Meetings
Cha Mou Zing Victor	2/2
Ramin Khadem	2/2
Yi Xiqun	2/2

A complete record of the minutes of the remuneration committee meetings is kept by the Company Secretary. The remuneration committee had reviewed the Company's remuneration policies, the terms of the 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 management is in accordance with the terms of the service contracts, such remuneration is fair and reasonable, and does not create any additional burden for the Company.

Remuneration details of each Director for the year 2008 are set out in the section headed "Directors' remuneration" of this report and Note 7 to the audited consolidated financial statements.

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 shareholders' general meeting. Both the appointment of Ms. Yan Yan as President and the appointment of Mr. Wang Shaojian Sean as Chief Financial Officer and executive Director were approved by the Board and their remuneration packages under their service contracts were approved by the remuneration committee.

The Directors appointed by the Board in 2008 will retire and be eligible for re-appointment at the forthcoming AGM. The circular to be sent to the shareholders prior to the AGM will include details for election of Directors and biographies of all re-appointment candidates, to ensure that all shareholders are well-informed prior to the election of Directors.

Corporate Governance Report (continued)

Compliance committee

The compliance committee comprises two independent non-executive Directors, three executive Directors and one senior manager, namely Mr. Yi Xiqun, Dr. Ramin Khadem, Mrs. Pan Zhang Xin Marita, Mr. Su Xin, Mr. Wang Shaojian Sean and Ms. Lai Chor Shan. The committee is chaired by Mr. Yi Xiqun.

In 2008, two meetings were held by the compliance committee and below is the attendance of each of the committee members:

Committee Members	**Attendance /No. of Meetings**
Yi Xiqun	2/2
Ramin Khadem	2/2
Pan Zhang Xin Marita	2/2
Su Xin	1/2
Wang Shaojian Sean (appointed on 18 September 2008)	0/0 (Note)
Lai Chor Shan (appointed on 18 September 2008)	0/0 (Note)

Note: No compliance committee meeting was held during the period from 18 September 2008 to 31 December 2008.

Directors' responsibility for the financial statements

The Directors are responsible for supervising the preparation of 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 accounts for the year ended 31 December 2008, the Directors have selected suitable accounting policies and adopted appropriate accounting standards. Based on judgments and estimates that are prudent and reasonable, the Directors had ensured that the accounts are prepared on the going concern basis. The Directors have confirmed that the consolidated 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 2008, 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 reviews on the effectiveness of the system through the internal audit department. The Board considers that, in 2008, 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 independent 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 2008 are set out below:

Services rendered	Fees paid/payable
Audit services for 2008	RMB7.6 million
Non-audit services:	
Financial due diligence services	RMB0.48 million
Hong Kong profits tax compliance service	HKD0.02 million

Effective communication with the investment community

The investor relations team of the Company seeks to provide the most efficient and effective channel for our shareholders and the investment community to gain information about the Company. To keep our shareholders and the investment community informed of the Company's development, the investor relations team communicates actively through email and is a frequent participant in investment conferences throughout Asia. During the year, we attended twelve global investor conferences in Hong Kong, Singapore, Macau, Shanghai and Beijing and met about 300 investors from about 200 institutions. Led by our Chief Executive Officer, Mrs. Pan Zhang Xin Marita, the Company also conducted a global non-deal roadshow in March 2008, visiting investors in Hong Kong, Singapore, London, New York and Boston.

The 2008 AGM provided ideal chance for communication between the Board and the shareholders. The chairmen of the Board, audit committee, remuneration committee and compliance committee and external auditor were all present at the AGM held on 13 May 2008, to answer shareholders' inquiries.

Corporate information

Executive Directors	Pan Shiyi (Chairman) Pan Zhang Xin Marita (Chief Executive Officer) Yan Yan Su Xin Wang Shaojian Sean
Independent Non-executive Directors	Ramin Khadem Cha Mou Zing Victor 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	Cha Mou Zing Victor (Chairman) Ramin Khadem Yi Xiqun
Members of the Compliance Committee	Yi Xiqun (Chairman) Ramin Khadem Pan Zhang Xin Marita Su Xin Wang Shaojian Sean Lai Chor Shan
Authorised Representatives	Pan Zhang Xin Marita Ngai Wai Fung
Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Corporate Headquarters	11F, Section A Chaowai SOHO No. 6B Chaowai Street Chaoyang District Beijing 100020 China

Principal Place of Business in Hong Kong	8th Floor Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Cayman Islands Principal Share Registrar and Transfer Office	Bank of Butterfield International (Cayman) Ltd. Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Compliance Adviser	Platinum Securities Company Limited 22/F, Standard Chartered Bank Building 4 Des Voeux Road Central Hong Kong
Hong Kong Legal Advisor	Mallesons Stephen Jaques 37th Floor, Two International Finance Centre 8 Finance Street, Central Hong Kong
Auditor	KPMG 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Principal Banker	China CITIC Bank Corporation Ltd. Block C Fuhua Mansion No. 8 Chaoyangmenbei Dajie Dongcheng District Beijing China
Website address	www.sohochina.com
Stock Code	410

Independent Auditor's Report

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 46 to 108, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

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 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
12 March 2009

Consolidated income statement for the year ended 31 December 2008

	Note	**2008**	**2007**
		RMB'000	*RMB'000*
Turnover	3	3,121,375	6,953,580
Cost of properties sold		(1,577,391)	(3,156,638)
Gross profit		1,543,984	3,796,942
Other operating revenue		91,831	90,664
Selling expenses		(237,820)	(220,934)
Administrative expenses		(242,637)	(141,885)
Other operating expenses		(101,655)	(97,720)
Profit from operations		1,053,703	3,427,067
Financial income	4(a)	204,671	334,257
Financial expenses	4(a)	(135,552)	(4,534)
Government grants	5	26,337	–
Profit before taxation	4	1,149,159	3,756,790
Income tax	6(a)	(726,219)	(1,769,382)
Profit for the year		422,940	1,987,408
Attributable to:			
Equity shareholders of the Company		399,073	1,965,660
Minority interests		23,867	21,748
Profit for the year		422,940	1,987,408
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	10	518,766	523,241
Basic and diluted earnings per share (RMB)	11	0.076	0.477

The notes on pages 53 to 108 form part of these financial statements.

Consolidated balance sheet at 31 December 2008

	Note	**2008**	**2007**
		RMB'000	*RMB'000*
Non-current assets			
Property and equipment	12(a)	700,721	819,782
Bank deposits	17	782,346	1,247,246
Deferred tax assets	14(b)	89,807	4,718
Total non-current assets		1,572,874	2,071,746
Current assets			
Properties under development and completed properties held for sale	15	13,898,145	7,286,183
Trade and other receivables	16	691,261	351,454
Cash and cash equivalents	18	9,908,804	13,748,792
Total current assets		24,498,210	21,386,429
Current liabilities			
Bank loans	19	1,233,238	1,000,000
Trade and other payables	20	5,335,269	3,952,978
Taxation	14(a)	2,278,387	2,732,407
Total current liabilities		8,846,894	7,685,385
Net current assets		15,651,316	13,701,044
Total assets less current liabilities		17,224,190	15,772,790

The notes on pages 53 to 108 form part of these financial statements.

Consolidated balance sheet at 31 December 2008 (continued)

	Note	2008	2007
		RMB'000	*RMB'000*
Non-current liabilities			
Bank loans	19	3,000,000	1,000,000
Contract retention payables		26,719	103,398
Deferred tax liabilities	14(b)	72,584	51,031
Total non-current liabilities		3,099,303	1,154,429
NET ASSETS		14,124,887	14,618,361
CAPITAL AND RESERVES	21(a)		
Share capital		107,485	108,352
Reserves		13,880,557	14,347,480
Total equity attributable to the equity shareholders of the Company		13,988,042	14,455,832
Minority interests		136,845	162,529
TOTAL EQUITY		14,124,887	14,618,361

Approved and authorised for issue by the board of directors on 12 March 2009.

Directors
Pan Shiyi Pan Zhang Xin Marita

The notes on pages 53 to 108 form part of these financial statements.

Balance sheet at 31 December 2008

	Note	**2008**	**2007**
		RMB'000	*RMB'000*
Non-current assets			
Property and equipment	12(b)	–	120,311
Investments in subsidiaries	13	294,423	294,423
Total non-current assets		294,423	414,734
Current assets			
Properties under development and completed properties held for sale		80,265	–
Other receivables		–	16,591
Amounts due from subsidiaries		10,258,840	6,602,898
Cash and cash equivalents	18	1,386,573	5,700,984
Total current assets		11,725,678	12,320,473
Current liabilities			
Other payables		33,665	8,022
Amounts due to subsidiaries		764,012	349,112
Total current liabilities		797,677	357,134
Net current assets		10,928,001	11,963,339
Total assets less current liabilities		11,222,424	12,378,073
NET ASSETS		11,222,424	12,378,073
CAPITAL AND RESERVES	21(b)		
Share capital		107,485	108,352
Reserves		11,114,939	12,269,721
TOTAL EQUITY		11,222,424	12,378,073

Approved and authorised for issue by the board of directors on 12 March 2009.

Directors
Pan Shiyi　　　　Pan Zhang Xin Marita

The notes on pages 53 to 108 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2008

	Note	**2008**	**2007**
		RMB'000	*RMB'000*
Total equity at 1 January		14,618,361	1,522,780
Profit for the year	21(a)	422,940	1,987,408
Net income recognised directly in equity:			
Revaluation surplus on office premises, net of deferred tax	21(a)	4,880	114,166
Exchange differences on translation of financial statements of foreign operations	21(a)	(255,826)	(350,465)
Net recognised income and expense for the year		171,994	1,751,109
Attributable to			
Equity shareholders of the Company		*148,127*	*1,729,361*
Minority interests		*23,867*	*21,748*
		171,994	*1,751,109*
Dividends declared or approved during the year:			
Equity shareholders of the Company	10	(523,241)	–
Minority interests		(53,016)	(18,423)
		(576,257)	(18,423)
Movements in equity arising from capital transactions:			
Shares issued under the Global Offering	21(a)	–	11,914,605
Issuing expenses	21(a)	–	(536,718)
Equity settled share-based transactions	21(a)	25,526	10,365
Repurchase of own shares	21(a)		
– par value paid		(867)	–
– premium paid		(112,925)	–
Capital contributions from minority interests	21(a)	3,465	35,474
Acquisitions of minority interests	21(a)	(4,410)	(60,831)
		(89,211)	11,362,895
Total equity at 31 December	21(a)	14,124,887	14,618,361

The notes on pages 53 to 108 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2008

	Note	2008	2007
		RMB'000	*RMB'000*
Operating activities			
Profit before taxation		1,149,159	3,756,790
Adjustments for:			
– Depreciation		22,311	27,610
– Financial income		(204,671)	(334,257)
– Interest expense		8,210	–
– Net foreign exchange loss		124,063	–
– Loss on sale of property and equipment		753	234
– Equity-settled share-based payment expense		25,526	10,365
Operating profit before changes in working capital		1,125,351	3,460,742
(Increase)/decrease in trade and other receivables		(280,388)	307,457
(Increase)/decrease in properties under development and completed properties held for sale		(746,491)	786,135
Decrease in trade and other payables		(904,944)	(2,427,258)
Cash (used in)/generated from operation		(806,472)	2,127,076
Interest received		205,605	297,639
Interest paid		(161,403)	(127,342)
Income tax paid		(1,332,814)	(315,824)
Net cash (used in)/generated from operating activities		(2,095,084)	1,981,549
Cash flows from investing activities			
Payment for purchase of property and equipment		(17,976)	(11,694)
Proceeds from sale of property and equipment		911	216
Increase in term deposits with banks over 3 months		(1,022,000)	–
Decrease/(increase) in bank deposits		464,900	(906,371)
Payment for purchase of derivative financial instruments		(28,248)	–
Proceeds from settlement of derivative financial instruments		16,015	–
New advances to related parties		(32,680)	(1,384,118)
Repayments from related parties		74,891	1,557,132
Net cash outflow arising from the acquisition of subsidiaries		(1,599,498)	(592,562)
Acquisition of minority interests	21(f)	(3,810)	(60,831)
Proceeds from sale of an investment		–	16,522
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		(2,147,495)	(1,381,706)

The notes on pages 53 to 108 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2008 (continued)

	Note	**2008**	**2007**
		RMB'000	*RMB'000*
Cash flows from financing activities			
Proceeds from bank loans		3,000,000	1,200,000
Repayment of bank loans		(2,537,936)	–
Payment for repurchase of own shares	21(c)(iii)	(113,792)	–
Repayment of advances from a third party		(15,000)	(120,000)
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		3,465	35,474
Dividends paid to equity shareholders of the Company		(523,241)	–
Distributions to minority interests		(53,016)	(105,653)
Net cash (used in)/generated from financing activities		(239,520)	12,391,516
Net (decrease)/increase in cash and cash equivalents		(4,482,099)	12,991,359
Cash and cash equivalents at beginning of year		13,748,792	1,081,050
Effect of foreign exchange rate changes		(379,889)	(323,617)
Cash and cash equivalents at end of year	18	8,886,804	13,748,792

The notes on pages 53 to 108 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 2008 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. The consolidated financial statements are prepared on the historical cost basis, except for investment properties (see Note 1(f)), office premises (see Note 1(g)) and derivative financial instruments (see Note 1(e)) 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 28.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

(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(h)), 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(h)).

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

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(f) 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(q)(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.

(g) 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.

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

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.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

(g) Property and equipment (continued)

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 serviced apartment 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.

(h) 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(h)(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)

(h) 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(h)(i) and (ii)).

Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(i) 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(s)). 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.

(j) 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(h)), 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(h)).

(k) 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.

(l) 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(p)(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.

(m) 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.

(n) 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 People's Republic of China (the "PRC") laws and regulations are charged to profit or loss when incurred.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

(n) Employee benefits (continued)

(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.

(o) 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.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

(p) 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(p)(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(p)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with Note 1(p)(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.

(q) 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.

(vi) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

(r) 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.

(s) 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.

(t) 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 made.

(u) 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.

(v) 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 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.

Notes to the financial statements (continued)

2 Changes in accounting policies

The HKICPA has issued the following new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group:

- HK(IFRIC) 11, HKFRS 2 – Group and treasury share transactions
- HK(IFRIC) 12, Service concession arrangements
- HK(IFRIC) 14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction
- Amendment to HKAS 39, Financial instruments: Recognition and measurement, and HKFRS 7, Financial instruments: Disclosures-Reclassification of financial assets

These HKFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 29).

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) SOHO properties

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

(ii) 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.

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

	SOHO properties	**Shangdu phase one**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
2008			
Turnover	3,114,980	6,395	3,121,375
Cost of properties sold	(1,572,452)	(4,939)	(1,577,391)
Gross profit	1,542,528	1,456	1,543,984
Other operating revenue	91,831	–	91,831
Selling expenses	(236,632)	(1,188)	(237,820)
Administrative expenses	(240,662)	(1,975)	(242,637)
Other operating expenses	(101,655)	–	(101,655)
Profit/(loss) from operations	1,055,410	(1,707)	1,053,703
Financial income	204,284	387	204,671
Financial expenses	(135,547)	(5)	(135,552)
Government grants	26,337	–	26,337
Profit/(loss) before taxation	1,150,484	(1,325)	1,149,159
Income tax	(725,960)	(259)	(726,219)
Profit/(loss) for the year	424,524	(1,584)	422,940
Depreciation charged for the year	22,311	–	22,311
Segment assets	25,993,505	77,579	26,071,084
Segment liabilities	11,838,168	108,029	11,946,197
Capital expenditure incurred during the year	17,976	–	17,976

Notes to the financial statements (continued)

3 Turnover and segment reporting (continued)

	SOHO properties	Shangdu phase one	Total
	RMB'000	*RMB'000*	*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/(loss) 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

4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Financial income and expenses

	2008	2007
	RMB'000	*RMB'000*
Financial income		
Interest income	(189,014)	(314,230)
Net gain on derivative financial instruments	(15,657)	–
Net foreign exchange gain	–	(20,027)
	(204,671)	(334,257)
Financial expenses		
Interest on bank and other borrowings wholly repayable within five years	156,261	130,403
Less: Interest expense capitalised into properties under development*	(148,051)	(130,403)
	8,210	–
Net foreign exchange loss	124,063	–
Bank charges and others	3,279	4,534
	135,552	4,534

* Borrowing costs were capitalised at a rate of 5.16% – 7.56% per annum (2007: 6.30% – 7.56%).

(b) Staff costs

	Note	2008	2007
		RMB'000	*RMB'000*
Salaries, wages and other benefits		147,939	102,562
Contributions to defined contribution retirement plan		9,098	7,060
Equity-settled share-based payment expenses	23	25,526	10,365
		182,563	119,987

Notes to the financial statements (continued)

4 Profit before taxation (continued)

(c) Other items

	2008	2007
	RMB'000	*RMB'000*
Depreciation	22,311	27,610
Auditors' remuneration		
– audit services	9,674	4,834
– other services	2,012	1,198
Operating lease charges in respect of properties	3,957	1,709

5 Government grants

The Group received government grants of RMB26,337,000 (2007: RMB nil) from the Finance Bureau of Chongwen District of Beijing during the year ended 31 December 2008 pursuant to the local regulations issued by the People's Government of Chongwen District of Beijing in relation to Guanghualu SOHO project.

6 Income tax in the consolidated income statement

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

	Note	2008	2007
		RMB'000	*RMB'000*
Provision for the year			
– PRC Corporate Income Tax		314,326	852,011
– Land Appreciation Tax		477,056	909,113
Deferred tax	14(b)	(65,163)	8,258
		726,219	1,769,382

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Company and the Company's subsidiaries registered in the BVI are not subject to any income tax.

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 took effect on 1 January 2008. As a result of the new tax law, the income tax rate applicable to the Company's subsidiaries in the PRC except for Hainan Redstone Industry Co., Ltd. ("Hainan Redstone") was reduced from 33% to 25%, while that applicable to Hainan Redstone gradually increases 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

	2008	2007
	RMB'000	*RMB'000*
Profit before taxation	1,149,159	3,756,790
Income tax computed by applying the tax rate of 25% (2007: 33%) to profit before taxation	287,290	1,239,741
Tax effect of Land Appreciation Tax deductible for PRC Corporate Income Tax	(119,264)	(300,007)
Effect of differential tax rate on loss/(income)	13,945	(92,556)
Tax effect of unused losses not recognised	47,564	10,037
Others	19,628	3,054
Provision for Land Appreciation tax for the year	477,056	909,113
Actual tax expense	726,219	1,769,382

Notes to the financial statements (continued)

7 Directors' remuneration

Details of directors' remuneration are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments (Note (i))	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008						
Chairman						
Pan Shiyi	240	9,264	33	9,537	–	9,537
Executive directors						
Pan Zhang Xin Marita	240	8,399	–	8,639	–	8,639
Yan Yan	240	3,796	33	4,069	2,715	6,784
Su Xin	240	3,570	33	3,843	1,800	5,643
Wang Shaojian Sean (appointed on 25 June 2008)	120	1,676	–	1,796	367	2,163
Independent non-executive directors						
Ramin Khadem	309	–	–	309	–	309
Cha Mou Zing Victor	220	–	–	220	–	220
Yi Xiqun	220	–	–	220	–	220
	1,829	26,705	99	28,633	4,882	33,515

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments (Note (i))	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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						
Ramin Khadem *	82	–	–	82	–	82
Cha Mou Zing Victor *	59	–	–	59	–	59
Yi Xiqun *	59	–	–	59	–	59
	566	19,965	87	20,618	1,713	22,331

* These directors were appointed on 11 May 2007.

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(n)(ii). Details of these benefits in kind, including the principal terms and number of options granted, are disclosed in Note 23.

Notes to the financial statements (continued)

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2007: four) are directors whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other one (2007: one) individual are as follows:

	2008	**2007**
	RMB'000	*RMB'000*
Salaries and other emoluments	3,412	2,490
Retirement scheme contributions	33	29
Share-based payments	2,159	865
	5,604	3,384

The emoluments of the one (2007: one) individual with the highest emoluments are within the following bands:

	2008	**2007**
RMB	Number of individuals	Number of individuals
3,000,001–3,500,000	–	1
5,500,001–6,000,000	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 loss of RMB39,757,000 (2007: a profit of RMB988,813,000) 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

	2008	2007
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date of RMB0.10 per share (2007: RMB0.10 per share)	518,766	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

	2008	2007
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.10 per share (2007: RMB nil per share)	523,241	–

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 RMB399,073,000 (2007: RMB1,965,660,000) and the weighted average of 5,218,966,072 ordinary shares (2007: 4,120,603,250) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Note	2008	2007
		'000	*'000*
Issued ordinary shares at 1 January		5,232,413	3,750,000
Effect of share issued under the Global Offering	21(c)(ii)	–	370,603
Effect of repurchase of own shares	21(c)(iii)	(13,447)	–
Weighted average number of ordinary shares		5,218,966	4,120,603

During the years ended 31 December 2008 and 2007, 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 2008 and 2007.

Notes to the financial statements (continued)

12 Property and equipment

(a) The Group

	Office premises	Serviced apartment properties	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation:					
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 properties 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
At 1 January 2008	423,972	456,907	23,435	4,086	908,400
Additions	–	8,405	7,604	1,967	17,976
Revaluation surplus	6,507	–	–	–	6,507
Transfer to properties under development and completed properties held for sale	(141,945)	–	–	–	(141,945)
Acquisition of Beijing Kaiheng (Note 27)	–	–	1,446	5,437	6,883
Disposals	–	–	(2,153)	(5,666)	(7,819)
At 31 December 2008	288,534	465,312	30,332	5,824	790,002
Representing:					
Cost	–	465,312	30,332	5,824	501,468
Valuation – 2008	288,534	–	–	–	288,534
	288,534	465,312	30,332	5,824	790,002

	Office premises	Serviced apartment properties	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accumulated depreciation:					
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
At 1 January 2008	21,634	52,765	12,821	1,398	88,618
Charge for the year	7,512	10,150	3,998	651	22,311
Written back on transfer to properties under development and completed properties held for sale	(21,634)	–	–	–	(21,634)
Acquisition of Beijing Kaiheng (Note 27)	–	–	1,211	4,930	6,141
Written back on disposals	–	–	(998)	(5,157)	(6,155)
At 31 December 2008	7,512	62,915	17,032	1,822	89,281
Net book value:					
At 31 December 2008	281,022	402,397	13,300	4,002	700,721
At 31 December 2007	402,338	404,142	10,614	2,688	819,782

Notes to the financial statements (continued)

12 Property and equipment (continued)

(b) The Company

	Office premises
	RMB'000
Cost or valuation:	
At 1 January 2007 and 31 December 2007	141,945
Representing:	
Valuation – 2007	141,945
At 1 January 2008	141,945
Transfer to properties under development and completed properties held for sale	(141,945)
At 31 December 2008	–
Accumulated depreciation:	
At 1 January 2007	14,245
Charge for the year	7,389
At 31 December 2007	21,634
At 1 January 2008	21,634
Written back on transfer to properties under development and completed properties held for sale	(21,634)
At 31 December 2008	–
Net book value:	
At 31 December 2008	–
At 31 December 2007	120,311

(c) The Group's office premises were revalued as at 31 December 2008 and 2007 by Tongxin Assets Appraisal Co., Ltd., a firm of independent qualified valuer in the PRC at their open market value. The revaluation surplus of RMB4,880,000 (2007: RMB114,166,000) 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 2008 would has been RMB126,723,000 (2007: RMB162,800,000) had they been carried at cost less accumulated depreciation.

(d) The net book values of office premises and serviced apartment properties in aggregate of RMB683,419,000 as at 31 December 2008 (2007: RMB806,480,000) were under medium-term leases in the PRC.

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

13 Investments in subsidiaries – the Company

	2008	2007
	RMB'000	*RMB'000*
Unlisted shares, at cost	294,423	294,423

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. *	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 serviced apartment	US$10,000,000	–	95%
Hainan Redstone Industry Co., Ltd. *	Hainan, PRC	Development of Boao Canal Village project	RMB20,000,000	–	95.4%

Notes to the financial statements (continued)

13 Investments in subsidiaries – the Company (continued)

Name of Company	*Place of establishment/ incorporation*	*Principal activities*	*Paid-in capital*	*Attributable equity interest*	
				Direct	*Indirect*
Beijing Redstone Jianwai Real Estate Development Co., Ltd. *	Beijing, PRC	Development of Jianwai SOHO project	US$30,000,000	–	95%
SOHO China Leasing Co., Ltd. **	Beijing, PRC	Property leasing and resale services	US$100,000	–	100%
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 Guanghualu SOHO project	US$38,700,000	–	95%
Beijing SOHO Real Estate Co., Ltd. *	Beijing, PRC	Development of Sanlitun SOHO project	US$97,020,000	–	95%
Beijing Chaowai SOHO Real Estate Co., Ltd. *	Beijing, PRC	Development of Chaowai SOHO project	US$20,000,000	90%	9.5%
Beijing Millennium Real Properties Development Co., Ltd. ***	Beijing, PRC	Development of Beijing Residency project	RMB96,000,000	–	100%
Beijing Yeli Real Properties Development Co., Ltd. ***	Beijing, PRC	Development of Guanghualu SOHO II project	RMB10,000,000	–	100%
Beijing Kaiheng Real Estate Co., Ltd. *	Beijing, PRC	Development of Chaoyangmen SOHO project	USD12,000,000	–	100% Note (ii)
Beijing Suo Tu Shi Ji Investment Management Co., Ltd. ***	Beijing, PRC	Development of ZhongGuanCun SOHO project	RMB10,000,000	–	100% Note (iii)

* 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 2008, 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 2008, 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 Kaiheng Real Estate Co., Ltd. ("Beijing Kaiheng")

In 2008, the Group entered into an equity transfer agreement with Mr. Lei Kuanleong, Ms. Lam Kuo, Zhuhai Special Economic Zone Baofeng Properties Investment Services Company Limited and Beijing Zhuzong Group Limited to acquire the entire equity interest in Beijing Kaiheng which has been engaged in the development of Kaiheng Center located in Chaoyang District of Beijing, which was renamed to Chaoyangmen SOHO project after the acquisition by the Group.

(iii) Beijing Suo Tu Shi Ji Investment Management Co., Ltd. ("Beijing Suo Tu")

In 2008, Beijing Suo Tu, a wholly owned subsidiary of the Company, acquired a land use right and the building thereon (the "ZhongGuanCun SOHO project") from a third party.

Notes to the financial statements (continued)

14 Income tax in the consolidated balance sheet – the Group

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

	2008	2007
	RMB'000	*RMB'000*
PRC Corporate Income Tax payable	232,948	1,144,815
Land Appreciation Tax payable	2,045,439	1,587,592
	2,278,387	2,732,407

(b) Deferred tax

	2008	2007
	RMB'000	*RMB'000*
Deferred tax asset recognised on the balance sheet	89,807	4,718
Deferred tax liability recognised on the balance sheet	(72,584)	(51,031)
	17,223	(46,313)

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Note	Tax losses	Interest expense capitalized	Revaluation of office premises	Fair value of derivatives financial instruments	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007		–	–	–	–	–
Credited/(charged) to profit and loss	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)
At 1 January 2008		4,718	(12,976)	(38,055)	–	(46,313)
Credited/(charged) to profit and loss	6(a)	85,089	(10,191)	–	(9,735)	65,163
(Charged) to revaluation reserve		–	–	(1,627)	–	(1,627)
At 31 December 2008		89,807	(23,167)	(39,682)	(9,735)	17,223

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses in certain subsidiaries of RMB274,964,000 as at 31 December 2008 (2007: RMB114,732,000), 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 2008, RMB5,903,000, RMB17,000,000, RMB22,496,000, RMB38,372,000 and RMB191,193,000 of these tax losses will expire in 2009, 2010, 2011, 2012 and 2013, respectively.

(d) Deferred tax liabilities not recognized

Under the new tax law, the Company's subsidiaries in the PRC are levied a 10% withholding tax on dividends declared to their foreign investment holding companies arising from profits earned subsequent to 1 January 2008. As at 31 December 2008, temporary differences relating to the undistributed profits of these subsidiaries amounted to RMB733,210,000 (2007: RMB nil). Deferred tax liabilities of RMB73,321,000 (2007: RMB nil) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

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

	2008	**2007**
	RMB'000	*RMB'000*
Properties under development	10,982,786	6,840,802
Completed properties held for sale	2,915,359	445,381
	13,898,145	7,286,183

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

	2008	**2007**
	RMB'000	*RMB'000*
In the PRC		
– long lease	2,405,026	1,884,322
– medium-term lease	7,280,232	4,047,063
	9,685,258	5,931,385

Notes to the financial statements (continued)

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

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

	2008	2007
	RMB'000	*RMB'000*
Properties under development	8,934,837	4,834,619

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 2008 amounted to RMB1,577,391,000 (2007: RMB3,156,638,000).

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

16 Trade and other receivables – the Group

	Note	2008	2007
		RMB'000	*RMB'000*
Trade receivables	(i)	230,531	99,857
Amounts due from and advances to related parties	26(a)	35,221	77,127
Loan receivables	(ii)	1,650	2,360
Derivative financial instruments		39,221	–
Prepaid expenses and other receivables		386,288	174,470
		692,911	353,814
Less: Impairment losses on bad and doubtful debts		(1,650)	(2,360)
		691,261	351,454

(i) The ageing analysis of trade receivables are as follows:

	2008	2007
	RMB'000	*RMB'000*
Current or less than 1 month overdue	93,767	34,934
1 to 6 months overdue	68,780	32,883
6 months to 1 year overdue	9,996	2,515
Overdue more than 1 year	57,988	29,525
	230,531	99,857

The Group's credit policy is set out in Note 24(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 2008 and 2007.

17 Bank deposits – the Group

	Note	2008	2007
		RMB'000	*RMB'000*
Bank deposits for:			
Guarantees for mortgage loans	(a)	616,333	447,246
Guarantees for construction fees	(b)	166,013	–
Guarantee for a related party	(c)	–	800,000
		782,346	1,247,246

Notes to the financial statements (continued)

17 Bank deposits – the Group (continued)

The above bank deposits are restricted as follows:

(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 2008, the Group had deposits of RMB616,333,000 (2007: RMB447,246,000) 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 Group to repay the outstanding balance to the extent that the deposit balance is insufficient.

(b) As at 31 December 2008, pursuant to a new government regulation which took effective in 2008, the Group had deposits of RMB166,013,000 (2007: RMB nil) as non-cancellable guarantees on construction fees payable to construction contractors. Should the Group fails to settle related construction fees, the bank can draw down the deposits to settle the relevant sums and demand the Group to repay the outstanding balance to the extent that the deposit balance is insufficient.

(c) As at 31 December 2007, the Group made a deposit of RMB800,000,000 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. 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 amount overdue. With a written consent from the bank, the Group can use the fund in the restricted bank account. This guarantee was terminated in May 2008.

18 Cash and cash equivalents

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand	2,125	2,158	–	–
Cash at bank and other financial institutions	4,613,530	8,890,108	109,382	844,458
Term deposits with banks	5,293,149	4,856,526	1,277,191	4,856,526
Cash and cash equivalents in the balance sheet	9,908,804	13,748,792	1,386,573	5,700,984
Less: Term deposits with banks over three months	1,022,000	–		
Cash and cash equivalents in the consolidated cash flow statements	8,886,804	13,748,792		

19 Bank loans – the Group

The bank loans were repayable as follows:

	2008	2007
	RMB'000	*RMB'000*
Within 1 year or on demand	1,233,238	1,000,000
After 1 year but within 3 years	3,000,000	1,000,000
	4,233,238	2,000,000

As at 31 December 2008, RMB1,000,000,000 (2007: RMB2,000,000,000) bank loan repayable within 1 year was secured by the serviced apartment properties of Commune by the Great Wall project with a carrying amount of RMB293,598,000 and the land use rights of Sanlitun SOHO project with a carrying value of RMB3,342,583,000, and RMB3,000,000,000 (2007: RMB nil) bank loan repayable in 2011 was secured by the properties of Chaoyangmen SOHO project with a carrying amount of RMB5,614,867,000. The bank loans bore floating interest rates at the base lending rate of the PBOC.

20 Trade and other payables – the Group

	Note	2008	2007
		RMB'000	*RMB'000*
Accrued expenditure on land and construction	(i)	1,200,680	1,604,970
Sales deposits	(ii)	2,611,535	1,610,957
Advances from a third party	(iii)	39,784	54,784
Staff salaries and welfare payables		32,738	32,911
Other taxes payable	(iv)	174,836	14,570
Consideration payable for acquisition of subsidiaries	(v)	1,106,479	533,390
Derivative financial instruments		11,331	–
Others		157,886	101,396
		5,335,269	3,952,978

Notes to the financial statements (continued)

20 Trade and other payables – the Group (continued)

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:

	2008	2007
	RMB'000	*RMB'000*
Due within 1 month or on demand	392,564	1,214,552
Due after 1 month but within 3 months	808,116	390,418
	1,200,680	1,604,970

(ii) 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.

(iii) 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.

(iv) Other taxes payable comprised business tax payable, deed tax payable, urban real estate tax payable and withholding tax payable.

(v) The balance represented consideration payable for the acquisitions of subsidiaries as follows:

	2008	2007
	RMB'000	*RMB'000*
Beijing Kaiheng	673,351	–
Beijing Millennium Real Properties Development Co., Ltd. ("Beijing Millennium")	101,500	198,940
Beijing Yeli Real Properties Development Co., Ltd.	331,628	334,450
	1,106,479	533,390

21 Capital and reserves

(a) The Group

	Note	Share capital	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Revaluation reserve	General reserve fund	Retained earnings	Total	Minority interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007		79,642	75,059	–	–	–	97,186	110,910	997,386	1,360,183	162,597	1,522,780
Shares issued under the Global Offering	21(c)(i)	28,710	11,885,895	–	–	–	–	–	–	11,914,605	–	11,914,605
Issuing expenses		–	(536,718)	–	–	–	–	–	–	(536,718)	–	(536,718)
Equity settled share-based transactions	21(d)(i)	–	–	–	10,365	–	–	–	–	10,365	–	10,365
Exchange difference on translation of financial statements of foreign operations	21(d)(iii)	–	–	–	–	(350,465)	–	–	–	(350,465)	–	(350,465)
Revaluation surpluses on office premises, net of deferred tax	21(d)(iv)	–	–	–	–	–	114,166	–	–	114,166	–	114,166
Transfer to general reserve fund	21(d)(v)	–	–	–	–	–	–	102,796	(102,796)	–	–	–
Profit for the year		–	–	–	–	–	–	–	1,965,660	1,965,660	21,748	1,987,408
Capital contributions from minority interests		–	–	–	–	–	–	–	–	–	35,474	35,474
Acquisition of minority interests	21(f)	–	–	–	–	–	–	4,376	(26,340)	(21,964)	(38,867)	(60,831)
Distributions to minority interests		–	–	–	–	–	–	–	–	–	(18,423)	(18,423)
At 31 December 2007		108,352	11,424,236	–	10,365	(350,465)	211,352	218,082	2,833,910	14,455,832	162,529	14,618,361
At 1 January 2008		108,352	11,424,236	–	10,365	(350,465)	211,352	218,082	2,833,910	14,455,832	162,529	14,618,361
Repurchase of own shares	21(c)(iii)											
– par value paid		(867)	–	–	–	–	–	–	–	(867)	–	(867)
– premium paid		–	–	–	–	–	–	–	(112,925)	(112,925)	–	(112,925)
– transfer between reserves		–	–	867	–	–	–	–	(867)	–	–	–
Dividends approved in respect of the previous year	10	–	–	–	–	–	–	–	(523,241)	(523,241)	–	(523,241)
Equity settled share-based transactions	21(d)(i)	–	–	–	25,526	–	–	–	–	25,526	–	25,526
Exchange difference on translation of financial statements of foreign operations	21(d)(iii)	–	–	–	–	(255,826)	–	–	–	(255,826)	–	(255,826)
Revaluation surpluses on office premises, net of deferred tax	21(d)(iv)	–	–	–	–	–	4,880	–	–	4,880	–	4,880
Transfer to general reserve fund	21(d)(v)	–	–	–	–	–	–	40,961	(40,961)	–	–	–
Profit for the year		–	–	–	–	–	–	–	399,073	399,073	23,867	422,940
Capital contributions from minority interests		–	–	–	–	–	–	–	–	–	3,465	3,465
Acquisition of minority interests	21(f)	–	–	–	–	–	–	–	(4,410)	(4,410)	–	(4,410)
Distributions to minority interests		–	–	–	–	–	–	–	–	–	(53,016)	(53,016)
At 31 December 2008		107,485	11,424,236	867	35,891	(606,291)	216,232	259,043	2,550,579	13,988,042	136,845	14,124,887

Notes to the financial statements (continued)

21 Capital and reserves (continued)

(b) The Company

	Note	**Share capital**	**Share premium**	**Capital redemption reserve**	**Capital reserve**	**Exchange reserve**	**Revaluation reserve**	**Retained profits**	**Total**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007		79,642	75,059	–	–	–	97,186	124,979	376,866
Profit for the year		–	–	–	–	–	–	997,580	997,580
Shares issued under the Global Offering	21(c)(ii)	28,710	11,885,895	–	–	–	–	–	11,914,605
Issuing expenses		–	(536,718)	–	–	–	–	–	(536,718)
Equity settled share-based transactions	21(d)(ii)	–	–	–	10,365	–	–	–	10,365
Exchange difference on translation of financial statements	21(d)(iii)	–	–	–	–	(384,625)	–		(384,625)
At 31 December 2007		108,352	11,424,236	–	10,365	(384,625)	97,186	1,122,559	12,378,073
At 1 January 2008		108,352	11,424,236	–	10,365	(384,625)	97,186	1,122,559	12,378,073
Profit for the year		–	–	–	–	–	–	142,732	142,732
Repurchase of own shares	21(c)(iii)								
– par value paid		(867)	–	–	–	–	–	–	(867)
– premium paid		–	–	–	–	–	–	(112,925)	(112,925)
– transfer between reserves		–	–	867	–	–	–	(867)	–
Dividends approved in respect of the previous year	10	–	–	–	–	–	–	(523,241)	(523,241)
Equity settled share-based transactions	21(d)(ii)	–	–	–	25,526	–	–	–	25,526
Exchange difference on translation of financial statements	21(d)(iii)	–	–	–	–	(686,874)	–	–	(686,874)
At 31 December 2008		107,485	11,424,236	867	35,891	(1,071,499)	97,186	628,258	11,222,424

(c) Share capital

	Note	2008 No. of shares (’000)	2008 RMB’000	2007 No. of shares (’000)	2007 RMB’000
Authorised:					
Ordinary shares of HKD0.02 each	(i)	7,500,000		7,500,000	
Issued and fully paid:					
At 1 January		5,232,413	108,352	750,000	79,642
Share split	(i)	–	–	3,000,000	–
Shares issued under the Global Offering	(ii)	–	–	1,482,413	28,710
Repurchase of own shares	(iii)	(44,756)	(867)	–	–
At 31 December		5,187,657	107,485	5,232,413	108,352

(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 HKD0.10 each in the capital of the Company be subdivided into 5 ordinary shares of par value HKD0.02 each such that the Company has thereafter an authorised share capital of HKD150,000,000 divided into 7,500,000,000 ordinary shares of par value HKD0.02 each and an issued share capital of HKD75,000,000 divided into 3,750,000,000 ordinary shares of par value HKD0.02 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 HKD0.02 each at an offer price of HKD8.30 per share, to the public in Hong Kong and other selected institutional and professional investors (collectively, the “Global Offering”). All shares of the Company are listed on the Stock Exchange.

Notes to the financial statements (continued)

21 Capital and reserves (continued)

(c) Share capital (continued)

(iii) Repurchase of own shares

During the year ended 31 December 2008, the Company repurchased its own shares on the Stock Exchange as follows:

	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid
		HKD	*HKD*	*HKD'000*
16 June 2008	3,719,000	4.40	4.10	15,956
17 June 2008	1,224,500	4.44	4.38	5,396
18 June 2008	1,044,000	4.49	4.34	4,598
20 June 2008	1,453,000	4.35	4.10	6,073
24 June 2008	489,000	4.10	4.07	2,002
30 June 2008	415,000	4.34	4.21	1,770
3 July 2008	1,672,000	4.07	4.00	6,727
15 July 2008	906,500	4.25	4.11	3,776
12 August 2008	1,991,500	4.00	3.95	7,933
13 August 2008	2,676,000	4.00	3.95	10,652
8 October 2008	9,844,000	2.29	2.19	21,882
9 October 2008	1,920,000	2.34	2.23	4,435
10 October 2008	2,651,000	2.26	2.14	5,917
15 October 2008	60,000	2.42	2.42	145
16 October 2008	2,600,000	2.21	2.13	5,608
17 October 2008	2,700,000	2.23	2.02	5,819
22 October 2008	1,300,000	2.30	2.23	2,966
27 October 2008	2,650,000	2.28	2.18	5,874
28 October 2008	810,000	2.00	1.90	1,602
29 October 2008	2,700,000	2.17	2.02	5,706
30 October 2008	280,500	2.15	2.13	600
21 November 2008	1,650,000	2.39	2.26	3,815
	44,756,000			129,252

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37 of the Cayman Islands Companies Law, an amount equivalent to the par value of the shares cancelled of HKD895,000 was transferred from the retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of HKD128,357,000 was charged to the retained profits.

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

Exercise period	Exercise price	2008 *Number*	2007 *Number*
8 October 2008 to 7 October 2013	HKD8.30	11,326,365	12,058,000
30 January 2009 to 29 January 2014	HKD6.10	6,654,000	–
30 June 2009 to 29 June 2014	HKD4.25	1,080,000	–
		19,060,365	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 23 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 23) recognised in accordance with the accounting policy adopted for share-based payments in Note 1(n)(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(r).

Notes to the financial statements (continued)

21 Capital and reserves (continued)

(d) Nature and purpose of reserves (continued)

(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(g).

The revaluation reserve of the Company in respect of office premises is distributable to the extent of RMB38,986,000 (2007: RMB9,869,000).

(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.

(e) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB628,258,000 (2007: RMB1,122,559,000), excluding the share premium and the distributable revaluation reserve as disclosed in Note 21(d)(i) and 21(d)(iv), respectively. After the balance sheet date the directors proposed a final dividend of RMB10 cents per ordinary share (2007: RMB10 cents per ordinary share), amounting to RMB518,766,000 (2007: RMB523,241,000). 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 2008, the Group acquired the minority interests on certain subsidiaries with an aggregate book value of RMB nil (2007: RMB38,867,000) at a total consideration of RMB4,410,000 (2007: RMB60,831,000). The excess of consideration over the book value of RMB4,410,000 (2007: 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 2007, as defined by the Group, being the total of bank and interest bearing borrowings divided by the total assets. As at 31 December 2008, the gearing ratio of the Group was 16.24% (2007: 8.53%).

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

22 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 2008 and 2007.

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

23 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.

Notes to the financial statements (continued)

23 Equity settled share-based transactions (continued)

(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
– on 30 January 2008	1,594,000	Three years from the date of grant	6 years
– on 30 June 2008	500,000	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
– on 30 January 2008	5,665,000	Three years from the date of grant	6 years
– on 30 June 2008	580,000	Three years from the date of grant	6 years
Total share options	20,397,000		

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

	2008		2007	
	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	**Number of options**
	HKD	*'000*	*HKD*	*'000*
Outstanding at the beginning of the year	8.30	12,058	–	–
Granted during the year	5.86	8,339	8.30	12,058
Forfeited during the year	7.30	(1,337)	–	–
Outstanding at the end of the year	7.30	19,060	8.30	12,058
Exercisable at the end of the year	8.30	3,775	8.30	–

The options outstanding at 31 December 2008 had an exercise price of HKD8.30, HKD6.10 or HKD4.25 (2007: HKD8.30) and a weighted average remaining contractual life of 59 months (2007: 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 the 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.

	Granted on 30 June 2008	**Granted on 30 January 2008**	**Granted on 8 October 2007**
Fair value at measurement date	HKD1.51	HKD2.24	HKD3.25
Share price	HKD4.25	HKD6.10	HKD8.30
Exercise price	HKD4.25	HKD6.10	HKD8.30
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes Model)	49.36%	46.35%	45.91%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	4 years	4 years	4 years
Expected dividends	2.278%	0.5192%	0.478%
Risk-free interest rate (based on Exchange Fund Notes)	3.111%	1.980%	3.9275%

Notes to the financial statements (continued)

23 Equity settled share-based transactions (continued)

(c) Fair value of share options and assumptions (continued)

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.

24 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other 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 2008 and 2007, 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.

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:

	2008 Contractual undiscounted cash outflow					2007 Contractual undiscounted cash outflow				
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total**	**Balance sheet carrying amount**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total**	**Balance sheet carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Group										
Bank loans	(1,407,737)	(156,859)	(3,112,165)	(4,676,761)	4,233,238	(1,148,890)	(1,007,770)	–	(2,156,660)	2,000,000
Contract retention payables	–	(7,847)	(18,872)	(26,719)	26,719	–	(28,348)	(75,050)	(103,398)	103,398
Trade and other payables, excluding sales deposits	(2,723,734)	–	–	(2,723,734)	2,723,734	(2,342,021)	–	–	(2,342,021)	2,342,021
	(4,131,471)	(164,706)	(3,131,037)	(7,427,214)	6,983,691	(3,490,911)	(1,036,118)	(75,050)	(4,602,079)	4,445,419
The Company										
Other payables	(16,822)	–	–	(16,822)	16,822	(8,022)	–	–	(8,022)	8,022
Amounts due to subsidiaries	(764,012)	–	–	(764,012)	764,012	(349,112)	–	–	(349,112)	349,112
	(780,834)	–	–	(780,834)	780,834	(357,134)	–	–	(357,134)	357,134

(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 26, respectively. The annual interest rates of the Group's deposits at bank, ranged from 0.36% to 1.53% as at 31 December 2008 (2007: 0.72% to 1.53%).

Notes to the financial statements (continued)

24 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

At 31 December 2008, 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 decrease/increase the Group's profit after tax and retained profits by approximately RMB827,000 (2007: RMB nil) and would increase/decrease the Group's properties under development and completed properties held for sale by approximately RMB27,558,000 (2007: RMB20,000,000). 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 RMB15,211,000 (2007: RMB91,691,000).

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 analysis is performed on the same basis for 2007.

(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 2008 and 2007, the amounts denominated in currencies other than the functional currency of the entities to which they relate were as follows:

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	'000	*'000*	*'000*	*'000*
United States Dollars ("USD")	219,535	1,255,253	198,097	780,457

In respect of the exposure to foreign exchange rate fluctuation in USD, from 2008 the Group entered into a number of foreign exchange derivative contracts to manage such risk. The changes in fair value of these foreign exchange derivatives are recognised in profit or loss in accordance with the accounting policies set out in Note 1(e). As at 31 December 2008, the notional amounts of these foreign exchange derivatives amounted to USD273 million.

5% increase or decrease in USD exchange rate against RMB, assuming such change had occurred as at 31 December 2008, would not have a significant impact on the Group's results of operation and financial position.

(e) Fair values

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007.

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 23.

Forward exchange contracts are either market to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

25 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	
	2008	**2007**
	RMB'000	*RMB'000*
Contracted for	1,661,351	1,642,244
Authorised but not contracted for	4,513,257	1,579,157
	6,174,608	3,221,401

Notes to the financial statements (continued)

25 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	
	2008	**2007**
	RMB'000	*RMB'000*
Contracted for	5,394,118	5,394,118

The balance as at 31 December 2008 and 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 RMB22,313,000 as at 31 December 2008 (2007: RMB19,514,000). 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 RMB2,959,478,000 as at 31 December 2008 (2007: RMB 3,168,320,000).

(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.

26 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:

		2008	**2007**
		RMB'000	*RMB'000*
Beijing Hongyun Co., Ltd.	(i)	4,414	4,109
Huayuan	(ii)	30,807	73,018
		35,221	77,127

(i) The balances as at 31 December 2008 and 2007 were in connection with certain property units purchased by Beijing Hongyun Co., Ltd. ("Beijing Hongyun"), an investor of ZhongHongTian, from ZhongHongTian in 2002. The balance bore a floating interest rate at the base lending rate of the PBOC, unsecured and repayable on 31 December 2008. RMB nil (2007: RMB 2,122,000) was received from Beijing Hongyun during the year ended 31 December 2008.

(ii) The balances as at 31 December 2008 and 2007 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 2008, Jianhua advanced RMB32,680,000 to Huayuan (2007: RMB84,000,000) and received repayment of RMB74,891,000 from Huayuan (2007: RMB193,708,000).

Notes to the financial statements (continued)

26 Material related party transactions (continued)

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

(iii) 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 2008 and 2007 are as follows:

	2008	2007
	RMB'000	*RMB'000*
Beijing Redstone Industry Co., Ltd.	–	37,314
China Link Group Ltd.	–	69,999
Hainan Liteng Property Management Co., Ltd.	–	15,321
Mr. Pan Shiyi	–	63,306
Mrs. Pan Zhang Xin Marita	–	131

(b) 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:

	2008	2007
	RMB'000	*RMB'000*
Short-term employee benefits	36,307	27,012
Post-employment benefits	163	176
Share-based payments	8,523	3,737
	44,993	30,925

Total remuneration is included in "Staff costs" (see Note 4(b)).

(c) Other related party transactions

(i) Guarantees provided to the Group

Beijing Redstone Industry Co., Ltd. ("Redstone Industry"), a company controlled by Mr. Pan Shiyi, 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 RMB47,684,000 for these buyers as at 31 December 2008 (2007: RMB52,921,000). The guarantee period generally ranged from 2 to 17 years.

(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 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. Beijing Redstone Jianwai Real Estate Development Co., Ltd. ("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 bank deposit as disclosed in Note 17(c). The guarantee was terminated in May 2008.

(iii) Property purchase contract between Mrs. Pan Zhang Xin Marita and Beijing Millennium

Mrs. Pan Zhang Xin Marita and Beijing Millennium, a subsidiary of the Group, entered into a property purchase contract on 23 May 2008, pursuant to which Mrs. Pan Zhang Xin Marita agreed to purchase a unit in Beijing Residency project for a consideration of RMB12,327,000. Mrs. Pan Zhang Xin Marita paid RMB12,327,000 according to the contract on 15 August 2008.

Notes to the financial statements (continued)

27 Acquisition of Beijing Kaiheng

In May 2008, the Group acquired the assets and liabilities in Beijing Kaiheng, through an acquisition of all of its equity interest (see Note 13(ii)). The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Fair values on acquisition
	RMB'000
Property and equipment	742
Properties under development and completed properties held for sale	5,597,110
Cash and cash equivalents	42,938
Bank loans	(1,771,174)
Trade and other payables	(1,654,091)
Net identifiable assets and liabilities	2,215,525
Cash consideration	2,215,525
Consideration payable	(673,351)
Cash acquired	(42,938)
Net cash outflow	1,499,236

28 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.

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

As explained in Note 1(i), 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(h)(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.

Notes to the financial statements (continued)

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

(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 other receivables

The Group estimates impairment losses for trade and other 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 other 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.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2008

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 2008 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, and HKAS 1 (revised 2007), Presentation of financial statements, which are effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

30 Ultimate holding company

At 31 December 2008, 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.

31 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in the current year.