SOHO CHINA

Stock Code : 410

SOHO China Limited

Annual Report 2009

SOHO 中國 CHINA

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The board of directors (the "Directors") of SOHO China Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009 (the "Year" or the "Period"), which had 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 2009 audited consolidated annual results of the Group had been reviewed by the audit committee of the Company and approved by the Board on 11 March 2010.

For the year ended 31 December 2009, the Group achieved a turnover of RMB7,413 million, increased by 138% year over year, gross profit of RMB3,857 million and gross profit margin of 52%. Net profit attributable to equity shareholders of the Company was RMB3,300 million, increased by 727% year over year.

The Board recommended the payment of 61% of the core net profit (not including valuation gain on investment property) for the year as final dividend of RMB0.2 per share for the year ended 31 December 2009 subject to shareholders' approval at the forthcoming annual general meeting of the Company (the "AGM"), which will be held in May 2010.

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Chairman's Statement

Looking back, we find 2009 has been a memorable year for all of us. Hand in hand, we have ultimately ridden out the unprecedented financial turbulence, but the alarm of the crisis continues to ring in our ears.

In early 2009, the unprecedented financial turmoil of historic proportions put our system, mindset and all other things at stake. It brought together leaders and governments from around the world to engage in discussions and solutions. Unlike the conflicts, wars, and indifference that humanity has experienced so frequently, dialogue and collaborations of such scale and intensity are rare and particularly valuable. The financial crisis has triggered people to unite unlike ever before. In the midst of crisis, we prepare ourselves for another difficult yet resolute step into a new world.

In the second half of the year, the world economy began to pick up. Especially in China's real estate sector, we experienced a roller-coaster of market ups and downs. In such a complex market, SOHO China achieved record high performance results, out-performing the targets we set at the beginning of the year.

In 2009, SOHO China exceeded its initial annual targets for sales, project construction, acquisition, and financial results.

For the first time in its history, in 2009 SOHO China's contract sales amount surpassed RMB 10 billion. The Company's sales team stood the test of tough market conditions in late 2008 and in early 2009 became even more competent. With RMB 13.7 billion of total contract sales, SOHO China became the champion player in terms of market share in Beijing. Sanlitun SOHO Phase I, which includes five office towers and three shopping malls in the northern district, with a total GFA of approximately 240,000 square meters, was completed and delivered by end of 2009. The project's total sales of nearly RMB 16 billion were partially booked in 2009, and the remainder will significantly contribute to the Company's 2010 turnover.

The year 2009 also marked the Group's much anticipated entry into Shanghai's commercial property market. The acquisition of The Exchange-SOHO in Shanghai served the Group's strategy of developing commercial properties in the business centers of Beijing and Shanghai. It has been another successful case of converting non-performing assets into profitable projects. In the same spirit, we acquired the SOHO Nexus Centre in Beijing. Compared with land acquisitions, completed properties are relatively less costly to purchase, less risky and capital turnover is usually faster. Both The Exchange-SOHO and Nexus Centre have generated strong sales, and both have attracted new and diversified regional clients for the Group. These are milestones in the Group's expansion campaign into new markets. In 2009, the Group's acquisition amount increased by 65% over the previous year, and the total acquired GFA increased by 50%. This has not only laid a solid foundation for the Company's future growth, but has also prepared the Group to better respond to potential market changes.

SOHO China has been keeping a prudent and healthy finance structure. In 2009, the Group secured RMB 20 billion credit facility from Bank of China and China Merchant Bank. We issued convertible bonds at the coupon of 3.75%. Through acquisition and other means, the Group's gradually increased its leverage ratio while keeping adequate cash in hand for potential acquisition opportunities.

Chairman's Statement

In the past two years, the financial crisis has significantly impacted the global economic and financial order. Its influence on the global economy is far from being over. But thanks to the crisis, we are witnessing the emergence of a new economic order that is more inclusive and equitable. It is favorable to China's growth.

Under this new economic order, China's property market has greater upside potential.

Urbanization is inevitable in China for the coming years. This nationwide process will provide great prospects for the real estate industry. Urbanization prompts demand for both residential buildings and commercial properties. Properties should offer a balanced mix to satisfy people's needs for residence, office, work, and recreation.

The past few years have seen tremendous investments by the government and private sector in residential properties, while office and retail properties serving local enterprises in Beijing and Shanghai have been relatively under-supplied. This is evidenced by a far higher investment return from commercial properties.

While recognizing the enormous potential that lies within China's real estate industry, we need to remain sober-minded and prepare ourselves to respond to the aftermath of the financial crisis and issues arising from government stimulus policies. These policies, while boosting China's economy, have complicated the over-capacity problem in literally all industries. The Chinese economy today is largely sustained by government policies rather than market forces; this is particularly true of the property sector. Investment is a major driver in China's growth. Sizeable investment in the property market has caused prices to skyrocket across China. In some places, residential property prices more than doubled in 2009. However consumption power did not rise step by step and the real sector remains weak. The gap between the growth of the real sector and the property industry is the underlying cause of high vacancy rates.

Our views on the market are that industry cycles are becoming shorter, and policy has great impact on market volatility. In order to control residential prices and the asset bubble, the government has tightened credit for property since the beginning of 2010, which will be a year of uncertainty for the property market. The Company will remain cautious in acquisitions, and is well-equipped with over RMB 40 billion worth of property supply for the next three years. If the market is favorable, we have properties to sell; otherwise, we have cash to acquire.

Healthy growth and sustainability are the long term goals of the Company. In 2010 and in the foreseeable future, and if China's economy experiences policy induced volatilities, the Company will continue to follow the "Zhong Yong" philosophy to pursue healthy corporate development and build up its capacity against market risks and turbulences.

The full recovery of the real economy will take a much longer time. The remedies so far are all material, depending largely on monetary supply. Without spiritual guidance spiritual we would not be able to get through the crisis. In a year of extraordinary turbulence, we are grateful to our faith, which has provided us with peace, strength, aims, and direction. Wherever we go and whatever we do, we will reflect on whether it is conducive to our personal growth, to the Company's growth, and to social progress.

On this note, let us move forward.

Pan Shiyi
Chairman
11 March 2010

Business Review

During 2009, the Group achieved total contract sales amount of RMB13,680 million, 77% higher than that of 2008. Contract sales area was 312,243 square meters (not including car parks), 97% higher than that of 2008, and average selling price was RMB43,252 per square meter.

The Group's 2009 contract sales amount was mainly generated from the following projects: Sanlitun SOHO, ZhongGuanCun SOHO, Chaoyangmen SOHO Phase I & II and Beijing SOHO Residences.

Project	**Total sellable area*** *(sq.m.)*	**Total sellable area launched*** *(sq.m.)*	**Percentage of area sold out of area launched by 31 December 2009**	**Total contract sales amount by 31 December 2009*** *(RMB'000)*	**Contract sales amount during 2009*** *(RMB'000)*	**Contract sales area during 2009*** *(sq.m.)*	**Average price during 2009** *(RMB/sq.m.)*
Sanlitun SOHO	354,900	354,900	93%	15,786,371	8,865,727	188,111	47,130
ZhongGuanCun SOHO	44,362	33,244	91%	1,193,887	1,193,887	30,165	39,579
Chaoyangmen SOHO Phase I	53,936	46,394	100%	1,368,479	1,368,479	46,394	29,497
Chaoyangmen SOHO Phase II	34,428	29,828	97%	1,331,398	1,331,398	28,848	46,152
SOHO Beijing Residences	53,001	53,001	78%	1,864,944	778,796	18,625	41,815

* Total sellable area, total sellable area launched, contract sales area and amount exclude that of car parks in the projects.

In 2009, the Group completed the development of Sanlitun SOHO Phase I, Chaoyangmen SOHO Phase II and ZhongGuanCun SOHO, with a total gross floor area ("GFA") of about 360,000 square meters (including car parks). As at 31 December 2009, major properties under development, unsold or undelivered are as follows, among which Tiananmen South (Qianmen) is the only property that the Group holds as investment property.

Project	**Type**	**GFA** (sq.m.)	**Group Interest** *(%)*
Sanlitun SOHO Phase II	Retail, residential	223,000	95%
Chaoyangmen SOHO Phase II	Retail, office	60,000	100%
Guanghualu SOHO II	Retail, office	167,000	100%
Galaxy SOHO	Retail, office	334,000	100%
The Exchange-SOHO	Retail, office	80,000	100%
Wang Jing Plot B29	Retail, office	500,000	100%
SOHO Nexus Centre	Retail, office	103,000	100%
Tiananmen South (Qianmen)	Retail	55,000	100%
Total		**1,522,000**	

Business Review

PROJECTS UNDER DEVELOPMENT

During 2009, the Group primarily undertook the development of the following projects: Sanlitun SOHO, ZhongGuanCun SOHO, Chaoyangmen SOHO Phase II, Galaxy SOHO (also known as Chaoyangmen SOHO Phase III) and Guanghualu SOHO II.

Sanlitun SOHO

Sanlitun SOHO is located close to the second embassy district and the Workers' Stadium in Beijing. The site is in the popular Sanlitun entertainment district. With a total planned GFA of approximately 465,371 square meters, Sanlitun SOHO is one of the largest commercial and residential complexes available for sale in central Beijing. It is developed into five office towers and four residential towers on top of shopping malls, which are linked by an outdoor plaza. Pre-sale of Sanlitun SOHO commenced on 12 July 2008. As at 31 December 2009, the contract sales area for Sanlitun SOHO was 328,718 square meters (not including car parks), with an average price of RMB48,024 per square meter. Total contract sales amount was RMB15,886 million.

During 2009, Sanlitun SOHO Phase I with total GFA of approximately 240,000 square meters was completed and delivered. Sanlitun SOHO Phase II is under construction and will be completed and delivered in 2010.

Sanlitun SOHO

Sanlitun SOHO

ZhongGuanCun SOHO

ZhongGuanCun SOHO is located at the centre 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 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 GFA of 59,060 square meters. In August 2008, the Group acquired ZhongGuanCun SOHO at a total consideration of RMB890 million. Construction of ZhongGuanCun SOHO was almost completed at the time of acquisition and was fully completed in 2009.

Sales of ZhongGuanCun SOHO commenced on 8 May 2009. The retail space on B1 and office space on another two floors has not been offered for sale. As at 31 December 2009, the total contract sales area was 30,165 square meters (not including car parks) with an average price of RMB39,579 per square meter, accounting for approximately 91% of total sellable area launched. Total contract sales amount was RMB1,201 million.

ZhongGuanCun SOHO

Guanghualu SOHO II

Guanghualu SOHO II is located in the heart of the Beijing Central Business District ("CBD") with a total planned GFA of approximately 167,000 square meters. It is the Group's sixth project in Beijing CBD and is now under construction.

Guanghualu SOHO II

Business Review

Chaoyangmen SOHO

Chaoyangmen SOHO (formerly known as "Kaiheng Centre") is located on Chaoyangmennei Dajie in Dongcheng District, Beijing. The total construction site area of Chaoyangmen SOHO is approximately 68,642 square meters with 500 meters of street front along the East Second Ring Road. The project is located at the junction of two subway lines, Line 2 and Line 6. This centrally located project is expected to be supported by a large flow of pedestrian traffic. In May 2008, the Group acquired Chaoyangmen SOHO at a total consideration of approximately RMB5,544 million. Before this acquisition, about 53,075 square meters (representing approximately 11% of the total planned GFA) of Kaiheng Centre had already been sold to Bank of China as its Beijing branch headquarters.

On 5 June 2009, the Group reached an agreement to block sell Chaoyangmen Phase I with a GFA of 46,394 square meters for RMB1,221 million. The Group retained a 9.1% interest in the acquiring company and was granted a put option to transfer its 9.1% interest to the controlling shareholder of the acquiring company at a consideration of RMB288 million at a later date. The Group exercised such option in 2009.

Pre-sale of Chaoyangmen SOHO Phase II commenced on 13 July 2009 and achieved a pre-sale amount of RMB963 million on that day. As at 31 December 2009, the pre-sale area for Chaoyangmen SOHO Phase II was approximately 28,848 square meters (not including car parks), representing 97% of total sellable area launched, with a total contract sales amount of RMB1,331 million and an average price of RMB46,152 per square meter.

The basement retail space of Chaoyangmen SOHO Phase I and Phase II has not been offered for sale.

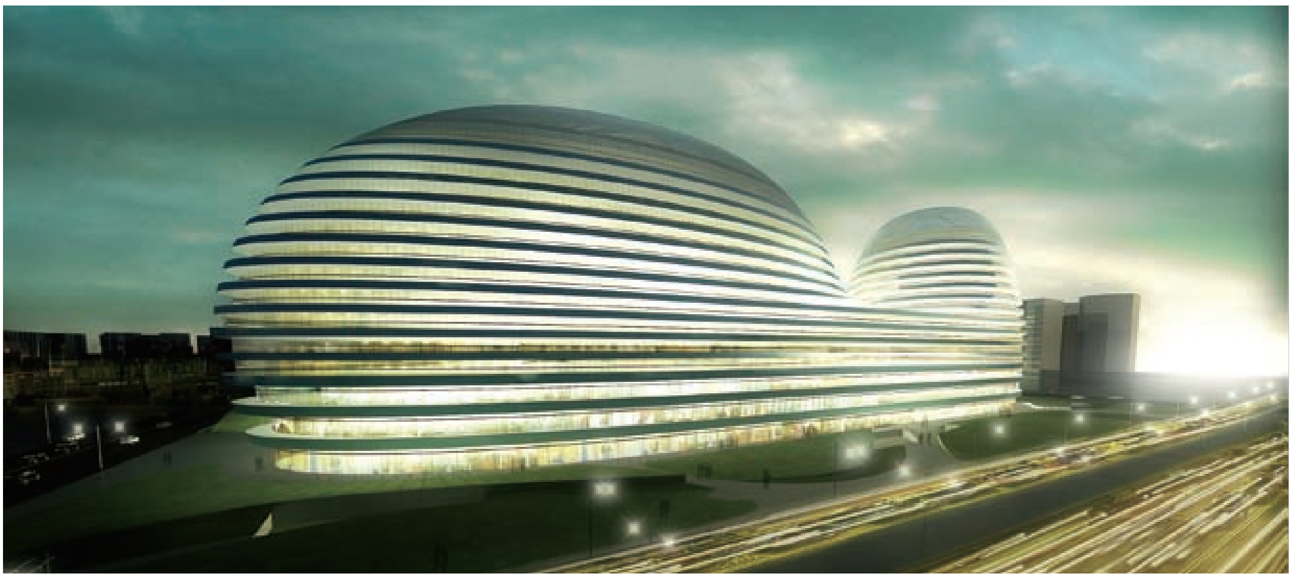
Construction of Chaoyangmen SOHO Phase I was already completed at the time of the Group's acquisition. Construction for Chaoyangmen Phase II was completed during 2009 and it will be delivered in the first half of 2010.

Chaoyangmen SOHO Phase II

Galaxy SOHO

Galaxy SOHO (also known as Chaoyangmen SOHO phase III) is designed by Zaha Hadid Architects and will be developed into a high quality and innovative commercial property. With total GFA of approximately 334,000 square meters, Galaxy SOHO will be the Group's iconic development within the 2nd Ring Road of Beijing.

Galaxy SOHO - Interior



Galaxy SOHO - Exterior

Business Review

ACQUISITION OF NEW PROJECTS

During 2009, the Group acquired four projects with total consideration of approximately RMB10,560 million, 65% higher than that of 2008. The total GFA of these acquisitions were approximately 738,540 square meters, 50% higher than that of 2008. Details are as follows:

Project	**Acquisition Date**	**GFA** (square meters)	**Consideration** *(RMB million)*
Tiananmen South (Qianmen)	May 2009	54,691	1,770
The Exchange-SOHO	August 2009	80,509	2,450
Wang Jing Plot B29	September 2009	500,000	4,000
SOHO Nexus Centre	November 2009	103,340	2,340
Total		**738,540**	**10,560**

Tiananmen South (Qianmen)

On 15 May 2009, the Group entered into a framework agreement and a supplemental agreement to purchase 54,691 square meters of retail properties at Tiananmen South (Qianmen), through Beijing Danshi Investment Management Co., Ltd. ("Beijing Danshi") (a company controlled by the Company's chairman, Mr. Pan Shiyi). The total consideration of this purchase was RMB1,768 million, at RMB32,328 per square meter. Of the 54,691 square meters, approximately 22,763 square meters are located on Qianmen Avenue, which have been fully built, and approximately 31,928 square meters are located on the east side of Qianmen Avenue, largely yet to be built.

The two agreements were intended to restructure the original agreements entered into in early 2007 by the same parties and disclosed in the prospectus of the Company, under which the Group has the right to acquire from Beijing Danshi its 100% economic interest in the Tiananmen South (Qianmen) project. However, despite two years of intensive effort, the requisite government approvals for the transfer have remained outstanding. All parties therefore have agreed to a revised agreement under which the Group will acquire through Beijing Danshi the right to acquire direct ownership of the above-mentioned properties in the most desirable areas of the project. In addition, the Group will have the right of first refusal for the development of other parts of the project in the future. Proposed restructuring of Tiananmen South (Qianmen) project was approved by independent shareholders at the extraordinary general meeting of the Company held on 16 June 2009.

The Group keeps these completed retail properties as investment properties. As at 31 December 2009, nearly 90% of the fully built area held by the Group was leased out.

Tiananmen South (Qianmen)

The Exchange – SOHO

On 18 August 2009, the Group acquired The Exchange at a total consideration of USD equivalent to RMB2,450 million plus the amount of working capital of the project company prior to the transaction closing date. The Group renamed the property as The Exchange – SOHO. The Exchange – SOHO is located at No.1486 Nanjing Road West, Shanghai, in the heart of the Nanjing Road West Commercial Business District. It is in close proximity to a concentration of five-star hotels, high-end shopping centres and two metro stations (Line 10 and planned Line 4), as well as Shanghai's main east-west thoroughfare – Yan'an Elevated Highway. The 52-floor project with a height of 217 meters is among Shanghai's tallest skyscrapers. It is comprised of a total above-ground GFA of 71,671 square meters of commercial space and a total below-ground GFA of 8,838 square meters for parking and storage.

This acquisition marks the Group's much anticipated entry into the Shanghai commercial property market. The Group is actively looking to acquire completed or near-completion commercial projects that can generate return within a relatively short timeframe.

The Exchange – SOHO

Business Review

Wang Jing Plot B29
On 3 September 2009, the Group made a successful bid of RMB4 billion for the land use right in respect of plot B29 situated at Wang Jing, Chaoyang District, Beijing ("Plot B29") through a public bidding process.

Plot B29 is to be developed into large-scale retail and office properties with a total GFA of approximately 500,000 square meters. Wang Jing area is Beijing's most mature high-end residential area of the largest scale, which is noticeably lacking in large-scale office and commercial facilities. The development of Plot B29 will complete and add balance to the overall urban master plan for Wang Jing. There is excellent accessibility to Plot B29, with two subway lines and one light rail nearby and easy access to the airport expressway. This development, zoned to stand 200 meters high, will be the first landmark and point of access to central Beijing from the airport expressway. Wang Jing is also home to the China headquarters of many multinational companies, including Daimler, Siemens, Microsoft, and Caterpillar whose headquarters are situated nearby.

SOHO Nexus Centre
On 18 November 2009, the Group acquired "Nexus Centre", a 37-storey office and retail complex located at East Third Ring Road, Beijing. Nexus Centre is a completed grade-A building with total GFA of 103,340 square meters and total above ground sellable GFA of 82,165 square meters. It is located at the busiest part of East Third Ring Road, Beijing, and directly adjacent to both Beijing CBD and Sanlitun. With direct access to the No. 10 Subway Line, it is convenient in every direction. The Group renamed it as "SOHO Nexus Centre" after completion of the acquisition.

The Group commenced sales of SOHO Nexus Centre on 20 January 2010. As at 28 February 2010, the total contract sales area was approximately 59,000 square meters (not including car parks) with an average selling price of RMB43,630 per square meter. Total contract sales amount was RMB2,579 million.

SOHO Nexus Centre

Corporate Social Responsibility

The SOHO China Foundation is a public welfare charity organization invested, managed and operated solely by the Company. It is committed to promoting the development of societal values as a means to stimulate spiritual advancement and growth. While the Company creates tremendous wealth for society and its shareholders each year, the SOHO China Foundation, with the help of donations and the participation of its staff members, stages various charity and subsidy programs that enrich our growth with spiritual wealth. Apart from monetary donations, all our staff members are encouraged to participate in each of our charity programs; an act that requires not only financial contribution, but also the time, affection and wisdom it takes to serve and give back the community.

In 2009, the SOHO China Foundation donated to three programs: the Children's Virtues Project, the Bathroom Construction Campaign for schools in impoverished areas and Futures Brightened through Helping Hands, a program that donates to disadvantaged undergraduate students.

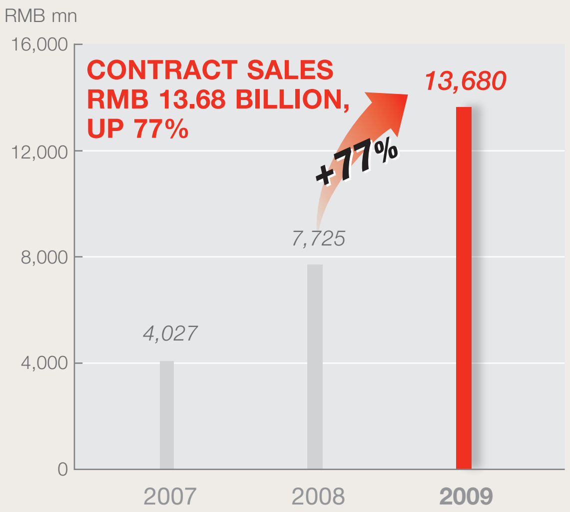
Further to the successful trial promotion of the Children's Virtues Project in Tianshui region, Gansu in 2008, the SOHO China Foundation expanded the training program to include teachers. To date, a total of 348 teachers have attended the education training program, benefiting more than 18,000 children. Under the 2010 plan, 600 teachers will participate in training that will benefit even more children.

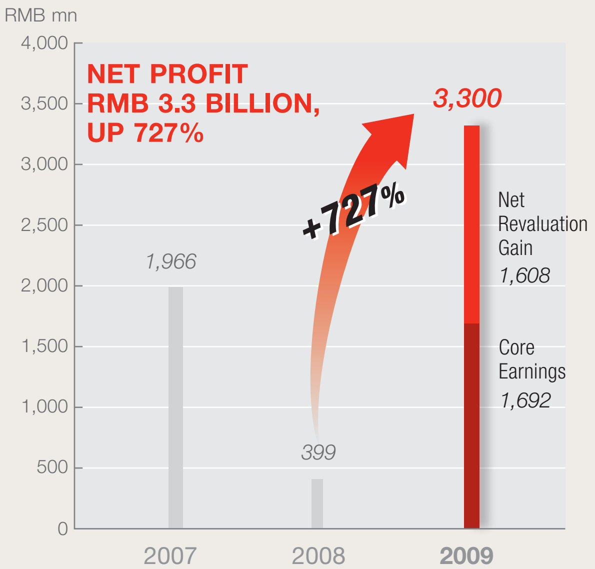
Given the rudimentary conditions of rural school washrooms, some on the verge of collapse, in 2008 the Company initiated the Children's Virtues Project – Bathroom Construction Campaign for schools in the Tianshui region. The two combined initiatives are expected to benefit 1,800 schools and more than 500,000 students. Currently, the construction of washrooms for 25 schools has been completed.

The SOHO China Foundation donated RMB2,000,000 to 1,000 disadvantaged undergraduates from rural families at Tianshui Normal College to financially assist their academic pursuits in the field of education.

As a pro-active frontrunner in performing social responsibility, the Company will constantly dedicate itself, advocate to its staff members, and call for increased social resources to contribute to the cause of public welfare.

Management Discussion and Analysis





Turnover

Turnover (net of business tax) for 2009 was RMB7,413 million, representing an increase of RMB4,292 million or 138% as compared with RMB3,121 million in 2008. This was mainly attributable to the increase in the floor area booked in 2009. Area booked during the Year was 177,483 square meters (not including car parks), representing an increase of 120% compared to 80,598 square meters in 2008. In 2009, average price of booked floor area (not including car parks) was RMB40,956 per square meter, which is 6% higher than RMB38,467 per square meter in 2008. Turnover of 2009 mainly came from Sanlitun SOHO Phase I, ZhongGuanCun SOHO, Chaoyangmen SOHO Phase I and Beijing SOHO Residences.

Cost of properties sold

Cost of properties sold for 2009 was RMB3,556 million, RMB1,979 million higher than RMB1,577 million in 2008, mainly attributable to the increase in the floor area booked.

Gross profit

Gross profit for 2009 was RMB3,857 million, representing an increase of RMB2,313 million or 150% as compared with RMB1,544 million in 2008. Gross profit margin for 2009 was 52%, as compared to 49% in 2008.

Selling expenses

Selling expenses for 2009 was RMB262 million, representing an increase of RMB24 million or 10% over RMB238 million in 2008. The increase was mainly the result of the tremendous growth in contract sales and turnover in 2009. However, selling expenses as a percentage of contract sales and turnover has decreased. In 2009, selling expenses represented 2% of contract sales amount (2008: 3%), and 3.5% of turnover (2008: 7.6%).

Administrative expenses

Administrative expenses for 2009 was RMB185 million, representing a decrease of RMB58 million or 24% over RMB243 million in 2008. The significant decrease in administrative expenses was mainly attributable to our efforts in improving internal management efficiency through department consolidation and budgeting management. As a result, although the size of the Group and contract sales were expanded, administrative expenses decreased.

Financial Income

Financial income for 2009 was RMB234 million, representing an increase of RMB29 million or 14% over RMB205 million for 2008. The increase in financial income was mainly attributable to realized exchange profit and some cash management tools.

Financial expenses

Financial expenses for 2009 was RMB147 million, representing a slight increase of 8% over RMB136 million for 2008. The increase in financial expenses was mainly attributable to the interest expenses of the convertible bonds issued by the Company on 2 July 2009.

Valuation gain on investment property

Valuation gain on investment property for 2009 is RMB2,144 million, attributable to the completed 22,454 square meters of Tiananmen South (Qianmen) project. The Group had no valuation gain on investment property in 2008.

Profit before taxation

Profit before taxation for 2009 was RMB5,659 million, representing an increase of RMB4,510 million or 393% as compared with RMB1,149 million in 2008. The increase was mainly due to the higher gross profit and valuation gain on investment property as discussed above.

Income tax

Income tax is comprised of the PRC Corporate Income Tax and the Land Appreciation Tax. The PRC Corporate Income Tax for 2009 was RMB1,182 million, representing an increase of RMB933 million as compared with RMB249 million in 2008. Land Appreciation Tax for 2009 was RMB1,082 million, representing an increase of RMB605 million as compared with RMB477 million in 2008. Tax increased with the increasing profit.

Net profit attributable to the equity holders of the Company

Net profit attributable to the equity shareholders of the Company for 2009 was RMB3,300 million, representing an increase of RMB2,901 million as compared with RMB399 million in 2008. Core net profit, not including valuation gain on investment property, was RMB1,692 million, representing an increase of 324% as compared with that of 2008.

Cash and cash equivalents

Cash and cash equivalents as at 31 December 2009 was RMB9,242 million, representing a decrease of RMB667 million as compared with RMB9,909 million as at 31 December 2008. In 2009, cash inflow through property sales, issue of convertible bonds and bank loans, was close to the cash outflow for land and project acquisition cost, construction costs, working capital and operating expenses.

Net cash outflow for acquisitions of subsidiaries

In 2009, net cash outflow for acquisitions of subsidiaries was RMB4,768 million, representing an increase of RMB3,169 million as compared with RMB1,599 million in 2008. In 2009, this cash outflow was mainly for acquisition of The Exchange – SOHO project and the SOHO Nexus Centre project. In 2008, this cash outflow was mainly for acquisition of Chaoyangmen SOHO project.

Management Discussion and Analysis

Total current assets and liquidity ratio

Total current assets as at 31 December 2009 were RMB32,329 million, representing an increase of RMB7,831 million or 32% over RMB24,498 million as at 31 December 2008. Liquidity ratio (total current assets/current liabilities) decreased from 2.77 as at 31 December 2008 to 2.70 as at 31 December 2009.

Convertible bonds, bank loans and collaterals

On 2 July 2009, the Company issued a five-year HK$2,800 million convertible bonds ("the Convertible Bonds"), bearing interest at the rate of 3.75% per annum. Each bond will be convertible on or after 11 August 2009 up to and including 25 June 2014 into ordinary shares of the Company at an initial conversion price of HK$5.88. As at 31 December 2009, the carrying amounts of liability and equity component of the Convertible Bonds were RMB1,959 million and RMB514 million respectively.

As at 31 December 2009, the loan balance of the Group was RMB6,320 million. Of all the loans, RMB350 million was due in January 2010, RMB200 million is due in April 2010, RMB2,400 million is due in September 2011, RMB1,800 million is due in March 2012 and USD loan equivalent to RMB1,570 million is due in August 2012. As at 31 December 2009, bank loans of RMB4,750 million of the Group were collateralized by the Group's land use rights, properties and restricted bank deposits.

As at 31 December 2009, the Group had Convertible Bonds and bank loans of RMB8,278 million, equivalent to 21.9% of the total assets (2008: 16.2%). Net debt (bank loans + Convertible Bonds – cash and cash equivalents and bank deposits) to equity ratio was -13.0% (2008:-46.2%).

Interest rate risk

The Group's bank loans carried floating interest rate based on the base lending rate of the People's Bank of China ("PBOC") and London Interbank Offered Rate ("LIBOR"). PBOC did not adjust the base interest rate for RMB loans in 2009. LIBOR decreased from 1.4% at the beginning of the year to 0.25% 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 2009, the medium exchange rate of USD against RMB decreased from 6.8346 at the beginning of the year to 6.8282 at year end. If the exchange rates experience great volatility, the Group's foreign currency from the Convertible Bonds and bank loans would be subject to foreign exchange loss.

Contingent liabilities

As at 31 December 2009, the Group's guarantees to banks with respect to mortgage loans provided to buyers of property units was RMB3,702 million (RMB2,959 million as at 31 December 2008). This increase was attributable to the increase in accumulated contract sales.

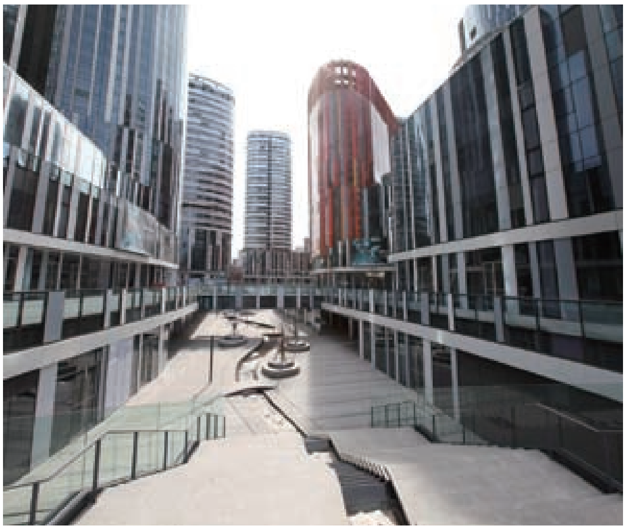
Capital commitments

As at 31 December 2009, the Group's contracted capital commitments for properties under development was RMB1,083 million (RMB1,661 million as at 31 December 2008). The amount mainly comprised contracted property development cost and land acquisition cost.

Employees and remuneration policy

As at 31 December 2009, the number of employees was 1,118 (including 392 employees for sales and leasing and 387 employees for Commune by the Great Wall and Boao Canal Village). Mr. Su Xin, resigned as executive Director and chief operating officer with effect from 30 September 2009. The senior management team size thus changed to 7 people.

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 listing of the Company on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company also granted share options to the senior employees as part of their remuneration packages on 14 September 2007, 30 January 2008 and 30 June 2008.



Sanlitun SOHO – Piazza

Directors' Report

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 2009 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 RMB0.20 per share for the year ended 31 December 2009 (2008: RMB0.10 per share).

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:

	2009	2008	2007	2006	2005
RMB'000					
Turnover	7,413,451	3,121,375	6,953,580	1,740,312	3,842,449
Profit before taxation	5,658,710	1,149,159	3,756,790	787,197	1,653,574
Income tax	(2,264,020)	(726,219)	(1,769,382)	(377,467)	(788,526)
Profit for the year	3,394,690	422,940	1,987,408	409,730	865,048
Attributable to:					
Equity shareholders of the Company	3,300,178	399,073	1,965,660	340,852	709,641
Minority interests	94,512	23,867	21,748	68,878	155,407
Final dividend proposed after the balance sheet date	1,037,531	518,766	523,241	–	33,866
Basic earnings per share (RMB)	0.636	0.076	0.477	0.091	0.189
Diluted earnings per share (RMB)	0.625	0.076	0.477	0.091	0.189

Consolidated balance sheet as at 31 December:

RMB'000	2009	2008	2007	2006	2005
Non-current assets	5,427,663	1,572,874	2,071,746	798,502	609,554
Current assets	32,328,658	24,498,210	21,386,429	7,631,139	5,318,538
Current liabilities	11,958,573	8,846,894	7,685,385	6,039,360	4,654,401
Net current assets	20,370,085	15,651,316	13,701,044	1,591,779	664,137
Total assets less current liabilities	25,797,748	17,224,190	15,772,790	2,390,281	1,273,691
Non-current liabilities	8,355,221	3,099,303	1,154,429	867,501	66,287
Net assets	17,442,527	14,124,887	14,618,361	1,522,780	1,207,404
Share capital	107,485	107,485	108,352	79,642	79,642
Reserves	17,116,130	13,880,557	14,347,480	1,280,541	896,451
Total equity attributable to equity shareholders of the Company	17,223,615	13,988,042	14,455,832	1,360,183	976,093
Minority interests	218,912	136,845	162,529	162,597	231,311
Total equity	17,442,527	14,124,887	14,618,361	1,522,780	1,207,404

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 and the consolidated statement of changes in equity.

Directors' Report

Purchase, sale or redemption of listed securities of the Group

On 14 September 2009, the Group, through Charm Beat International Limited, a wholly owned subsidiary of the Company, acquired 2,210,000 shares of the Company on market, at a total consideration of HKD9,960,300, for the purpose of setting up an employees' share award scheme in which certain senior management personnel (including any executive Directors) of the Group would be entitled to participate. The purpose of the employees' share award scheme is to reward participants who have contributed to the development and growth of the Group and to provide incentive to participants in order to retain them for the continued development of the Group. The shares are held as treasury shares and have been deducted from total equity attributable to equity shareholders of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2009.

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 11 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)*
(resigned with effect from 30 September 2009)
Mr. Wang Shaojian Sean *(Chief Financial Officer)*

Independent non-executive Directors
Dr. Ramin Khadem
Mr. Cha Mou Zing Victor
Mr. Yi Xiqun

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Mr. Pan Shiyi, Ms. Yan Yan and Dr. Ramin Khadem shall retire by rotation, and being eligible, offered themselves for re-election at the forthcoming AGM.

Biographies of Directors and members of senior management

Executive Directors

Mr. Pan Shiyi

Chairman of the Board

Mr. Pan Shiyi, aged 46, 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, Ms. Pan Zhang Xin Marita, the development of all of the Company's projects. 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, Ernst & Young Entrepreneur of the Year China 2008 and "Real Estate Person of the Year" by sina.com in 2009.

Mrs. Pan Zhang Xin Marita

Chief Executive Officer

Mrs. Pan Zhang Xin Marita, aged 45, is an executive Director and the Chief Executive Officer of the Company. Mrs. 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 the Company's projects.

Mrs. Zhang was selected by the Davos World Economic Forum as a Young Global Leader since 2005. In recognition of Mrs. Zhang's efforts in promoting the development of architecture in Asia, Mrs. 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 in 2008 and was named one of the Top 50 Women in World Business by Financial Times Newspaper in 2009. She has also spoken at various forums including the Fortune Global Forum 2005, the China Business Summit 2003, World Economic Development Declaration 2003 and the World Economic Forum in 2008 and 2009.

Ms. Yan Yan

President

Ms. Yan Yan, aged 46, 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 seventeen years of relevant experience in the real estate development industry in China.

Mr. Wang Shaojian Sean

Chief Financial Officer

Mr. Wang Shaojian Sean, aged 46, is an executive Director and the Company's Chief Financial Officer and is responsible for the Company's financial strategy and management. 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 65, is an independent non-executive Director. 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 Bachelor of Science 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 60, 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 62, is an independent non-executive Director. From 2003 to 2009, he was 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. Mr. Yi was 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 independent 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 47, 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-one years of relevant experience in the real estate development industry in China.

Mr. Xu Yang

Senior Vice President

Mr. Xu Yang, aged 50, 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 eleven years of relevant experience in the real estate development industry in China.

Ms. Lai Chor Shan

General Counsel

Ms. Lai Chor Shan, aged 37, 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 46, 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-one years' working experience, and has worked with us for thirteen 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 48, 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 and a member of the Association of Chartered Certified Accountants in the United Kingdom. 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' remuneration

The Directors' remunerations are determined by the Board, as authorized by the 2009 AGM held on 19 May 2009, 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 2009 are set out as follows:

2009	Directors' fees	Salaries, allowance 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*
Executive Directors						
Pan Shiyi	240	5,191	37	5,468	–	5,468
Pan Zhang Xin Marita	240	4,613	–	4,853	–	4,853
Yan Yan	240	4,647	37	4,924	1,044	5,968
Su Xin (resigned with effect from 30 September 2009)	180	3,092	27	3,299	726	4,025
Wang Shaojian Sean	240	4,611	–	4,851	217	5,068
Independent non-executive Directors						
Ramin Khadem	308	–	–	308	–	308
Cha Mou Zing Victor	220	–	–	220	–	220
Yi Xiqun	220	–	–	220	–	220
	1,888	22,154	101	24,143	1,987	26,130

Note:

(i) 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.

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 2009, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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)	64.0771%
		116,480,191 (S)		116,480,191 (S)	2.2453%
Pan Zhang Xin Marita	–	–	3,324,100,000 (L)	3,324,100,000 (L)	64.0771%
			116,480,191 (S)	116,480,191 (S)	2.2453%
Yan Yan	2,213,500 (L) (Note 2)	–	–	2,213,500 (L)	0.0427%
Ramin Khadem	300,000 (L)	–	–	300,000 (L)	0.0058%
Wang Shaojian Sean	500,000 (L) (Note 3)	–	–	500,000 (L)	0.0096%

Notes:

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

(2) These are interest in the underlying shares, which includes (i) 1,242,500 options granted under the Pre-IPO Share Option Scheme; (ii) 901,000 options granted on 30 January 2008 under the Share Option Scheme; and (iii) 70,000 shares beneficially owned.

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

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

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.	interest of controlled corporation	1,275,000	4.25%
	Beijing SOHO Real Estate Co. Ltd.	beneficial owner	2,970,000	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.	interest of controlled corporation	225,000	0.75%

Save as disclosed above, to the knowledge of the Directors, as at 31 December 2009, 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 2009, 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)	64.0771%
		116,480,191 (S)	2.2453%
HSBC International Trustee Limited (Note 2)	trustee	3,328,024,000 (L)	64.1527%
		116,480,191 (S)	2.2453%
Capevale Limited	interests of controlled corporation	3,324,100,000 (L)	64.0771%
		116,480,191 (S)	2.2453%
Boyce Limited (Note 3)	beneficial owner	1,662,050,000 (L)	32.0385%
		116,480,191 (S)	2.2453%
Capevale Limited (Note 4)	beneficial owner	1,662,050,000 (L)	32.0385%

Notes:

(1) "L" represents shareholders' long position in underlying securities, "S" represents shareholders' short 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 (long position) and 116,480,191 (short position) 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 32.04% 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 2009, 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' Report

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 2009, 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.

Share Option Scheme

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 the 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 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 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 2009, the number of shares available for issue and remained outstanding under the Share Option Scheme was 6,898,000 (2008: 7,734,000), representing 0.13% (2008: 0.15%) of the issued share capital of the Company. 836,000 Options were cancelled during the year.

Details of the Options granted under the Share Option Scheme and remain outstanding as at 31 December 2009 are as follows:

		Number of Options					
Name and class of grantees	**Date of grant**	**Outstanding as at 1 January 2009**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2009**
(1) Directors							
Yan Yan	30 January 2008 (Note 1)	901,000	–	–	–	–	901,000
SU Xin (resigned with effect from 30 September 2009)	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)	5,060,000	–	–	143,000	–	4,917,000
Other employees	30 June 2008 (Note 2)	580,000	–	–	–	–	580,000
Total		7,734,000	–	–	836,000	–	6,898,000

Note:

(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 8 October 2007, as the right to do so has ended on 8 October 2007.

As at 31 December 2009, the number of shares available for issue and remained outstanding under the Pre-IPO Share Option Scheme was 10,190,575 shares (2008: 11,326,365), representing 0.20% (2008: 0.22%) of the issued share capital of the Company. 1,135,790 Options were cancelled during the year.

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

			Number of Options			
Name and class of grantees	**Granted on 14 September 2007** *(Note)*	**Outstanding by 1 January 2009**	**Exercised during the year**	**Cancelled during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2009**
(1) Directors						
Yan Yan	1,242,500	1,242,500	–	–	–	1,242,500
Su Xin (resigned with effect from 30 September 2009)	750,000	750,000	–	750,000	–	–
(2) Employees of the Group	10,065,500	9,333,865	–	385,790	–	8,948,075
	12,058,000	11,326,365	–	1,135,790	–	10,190,575

Note:

All the Options granted on 14 September 2007 under the Pre-IPO Share Option Scheme can be exercised at the price of HKD8.3 per share. 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 the 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.

Directors' Report

Charitable donations

In 2009, the Group contributed RMB10 million to various charities.

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.

Compliance with the 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 during the year.

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
11 March 2010

Connected Transaction

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 2009 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 2009 and the aggregate outstanding amount under the supplemental agreement as at 31 December 2009 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 2009 and the aggregate outstanding amount under the supplemental agreement as at 31 December 2009 did not exceed the amount disclosed in the Prospectus.

Connected Transaction

(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 2009 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 2009 did not exceed the amounts disclosed in the Prospectus.

(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 2009 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 2009 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 ("District SASAC") and Beijing Chongyuan Investment Co., Ltd. ("Chongyuan").

- Payment in the total sum of RMB3.15 billion from Beijing Redstone Jianwai Real Estate Development Co., Ltd. ("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

All of the above agreements require PRC government approvals. None of the above agreements obtained PRC government approvals notwithstanding continuous efforts made by the Company and Beijing Danshi in procuring the requisite government approvals. On 15 May 2009, a framework agreement was entered into between Beijing Danshi, Beijing Tianjie, Chongyuan and District SASAC and a supplemental agreement was entered into between Mr. Pan, Ms. Yan Yan, Beijing Danshi, Redstone Jianwai, BVI-9 and the Company (the framework agreement and supplemental agreement are collectively referred to as the "Restructuring Agreement") to restructure the arrangements under the above agreements. Details of the Restructuring Agreement were disclosed in the circular dated 1 June 2009 issued by the Company and the Restructuring Agreements were approved by the independent shareholders of the Company in the extraordinary general meeting of the shareholders of the Company held on 16 June 2009. The Restructuring Agreements allowed the Group to acquire from Beijing Danshi the right to purchase retail properties of Tiananmen South (Qianmen) project. In addition, the agreements in relation to acquisition of equity interests in Beijing Tianjie were terminated on 1 September 2009 pursuant to the Restructuring Agreements. No payment or transfer of equity interests in Beijing Tianjie was made by the Group under the above agreements during the year ended 31 December 2009.

(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. The project management agreement was terminated on 1 September 2009 pursuant to the Restructuring Agreements. No service fee was received by the Group during the year ended 31 December 2009.

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 shareholders of the Company. The Company has adopted sound governance and disclosure practices, and is committed to continuously improve these practices and inculcate an ethical corporate culture.

In the opinion of the Directors, the Company had been in compliance with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules for the year ended 31 December 2009.

Compliance with the Model Code

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 2009.

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 seven Directors, including four executive Directors, namely Mr. Pan Shiyi (Chairman), Mrs. Pan Zhang Xin Marita (Chief Executive Officer), Ms. Yan Yan 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 members of senior management" under Directors' Report 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.

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 Director has renewed their appointment letters with the Company for a term commencing from 1 January 2010 to 31 December 2010.

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.

Corporate Governance Report

Change in senior management and members of the compliance committee

Mr. Su Xin resigned as executive Director, chief operating officer and member of the compliance committee of the Company with effect from 30 September 2009. Following the resignation of Mr. Su, the Board has appointed Ms. Yan Yan as a member of the compliance committee with effect from 30 September 2009. The Board further approved on 11 March 2010 to change the composition of the compliance committee, such that Ms. Yan and Mr. Wong Shaojian Sean were no longer members of the compliance committee.

Board meetings

In 2009, 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 (Note 1)	3/4 (Note 2)
Wang Shaojian Sean	5/5
Independent non-executive Directors	
Ramin Khadem	5/5
Cha Mou Zing Victor	5/5
Yi Xiqun	3/5

Note 1: Resigned as executive Director with effect from 30 September 2009.
Note 2: Four Board meetings were held during the period from 1 January 2009 to 30 September 2009.

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 meetings 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.

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, including that sufficient staff with qualifications and experience in accounting and financial reporting as well as training programs and budgets are allocated to operate the internal control procedures effectively.

In 2009, 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 (Chairman)	2/2
Cha Mou Zing Victor	1/2
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 adequacy of resources, sufficiency of qualifications and experience of the staff of the Company's accounting and financial reporting functions and their training programs and budget. The audit committee had also reviewed the audited consolidated annual results of the Company for the year ended 31 December 2009 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 2009, and recommended the Board to re-appoint KPMG as auditor of the Company for the year 2010, 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 2009, one meeting was 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 (Chairman)	1/1
Ramin Khadem	1/1
Yi Xiqun	0/1

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 2009 are set out in the section headed "Directors' remuneration" of this report and the 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.

The Directors appointed by the Board in 2009 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.

Compliance committee

Following the change of member of the compliance committee, as mentioned under the section "Change in senior management and members of the compliance committee" of this Corporate Governance Report, the compliance committee currently comprises two independent non-executive Directors, one executive Director and one senior manager, namely Mr. Yi Xiqun, Dr. Ramin Khadem, Mrs. Pan Zhang Xin Marita and Ms. Lai Chor Shan. The committee is chaired by Mr. Yi Xiqun. Former compliance committee member, Mr. Su Xin resigned with effect from 30 September 2009.

In 2009, 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 (Chairman)	2/2
Ramin Khadem	2/2
Pan Zhang Xin Marita	0/2
Su Xin (Note 1)	1/2
Yan Yan (Note 2)	0/0
Wang Shaojian Sean	2/2
Lai Chor Shan	2/2

Note 1: Resigned as member of the compliance committee with effect from 30 September 2009. Two meeting were held by the compliance committee during the period from 1 January 2009 to 30 September 2009.

Note 2: Appointed as member of the compliance committee with effect from 30 September 2009. No meeting was held by the compliance committee during the period from 30 September 2009 to 31 December 2009.

Corporate Governance Report

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 2009, 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 2009, the internal audit department edited "SOHO China Internal Control Manual" and filed for internal procedure, and these ensured a sound and effective internal control system. The internal audit department did special audit on the process and budgeting of important operation units. It also worked on the monitoring of financial monitoring, operation monitoring, compliance monitoring and risk management. In 2009, the Company also appointed Deloitte Touche Tohmatsu as its internal control consultant to re-check on specified procedure of the Company's 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 2009, 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 2009 are set out below:

Services rendered	Fees paid/payable
Audit services for 2009	RMB6.20 million
Non-audit services:	
Financial due diligence services	RMB1.08 million
Hong Kong profits tax compliance services	RMB0.11 million
Transfer pricing service	RMB0.14 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, Convertible Bond holders and the investment community informed of the Company's development, the investor relations team communicates actively through timely publication of annual reports, interim reports and quarterly operational announcements, as well as communication with the investment community through e-mails and telephone calls on a daily basis. It is also a frequent participant in global investment conferences.

In 2009, we attended twelve global investor conferences in United States, United Kingdom, Hong Kong, Singapore, Shanghai and Beijing and met over 300 investors from about 230 institutions.

Led by our Chief Executive Officer, Mrs. Pan Zhang Xin Marita, the Company also conducted a global non-deal roadshow in March 2009 visiting investors in Hong Kong, Singapore, London, New York and Boston. An Asian non-deal roadshow was conducted in September 2009. The Company also conducted a domestic non-deal roadshow in December 2009, visiting investors in Beijing, Shanghai and Shenzhen.

The Company hosted a Corporate Day Event in Beijing and Shanghai in October 2009, accommodating analysts and investors from Hong Kong, Shanghai and Beijing. They visited projects developed by the Company and met with senior management.

The 2009 AGM provided ideal chance for communication between the Board and the shareholders. The chairmen of the Board and the audit committee and external auditor were present at the AGM held on 19 May 2009, to answer shareholders' inquiries.

Corporate Information

Executive Directors	Pan Shiyi (Chairman) Pan Zhang Xin Marita (Chief Executive Officer) Yan Yan 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 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
Principle 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
Hong Kong Legal Advisor	Mallesons Stephen Jaques 13/F, Gloucester Tower The Landmark 15 Queen's Road Central, Central Hong Kong

Corporate information

Auditors	KPMG 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Principal Banker	China CITIC Bank Corporation Ltd. China Merchants Bank Corporation Ltd. Bank of China Corporation Ltd.
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 3 to 68, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, 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.

Independent Auditor's Report

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 2009 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
11 March 2010

Consolidated income statement for the year ended 31 December 2009

(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Turnover	3	**7,413,451**	3,121,375
Cost of properties sold		**(3,556,393)**	(1,577,391)
Gross profit		**3,857,058**	1,543,984
Valuation gain on investment property	11	**2,144,461**	–
Other operating revenue		**115,065**	91,831
Selling expenses		**(262,084)**	(237,820)
Administrative expenses		**(184,801)**	(242,637)
Other operating expenses		**(121,857)**	(101,655)
Profit from operations		**5,547,842**	1,053,703
Financial income	4(a)	**233,693**	204,671
Financial expenses	4(a)	**(146,620)**	(135,552)
Government grants	5	**23,795**	26,337
Profit before taxation	4	**5,658,710**	1,149,159
Income tax	6(a)	**(2,264,020)**	(726,219)
Profit for the year		**3,394,690**	422,940
Attributable to:			
Equity shareholders of the Company		**3,300,178**	399,073
Minority interests		**94,512**	23,867
Profit for the year		**3,394,690**	422,940
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	21(b)	**1,037,531**	518,766
Earnings per share (RMB)	10		
Basic		**0.636**	0.076
Diluted		**0.625**	0.076

The notes on pages 11 to 68 form part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2009

(Expressed in Renminbi)

	Note	**2009**	2008
		RMB'000	*RMB'000*
Profit for the year		**3,394,690**	422,940
Other comprehensive expenses for the year (after tax and reclassification adjustments):			
Exchange differences on translation of financial statements of foreign operations	*21(d)(iii)*	**(58,902)**	(255,826)
Surplus on revaluation of office premises, net of deferred tax	*21(d)(iv)*	**–**	4,880
Total comprehensive income for the year		**3,335,788**	171,994
Attributable to:			
Equity shareholders of the Company		**3,241,276**	148,127
Minority interests		**94,512**	23,867
Total comprehensive income for the year		**3,335,788**	171,994

The notes on pages 11 to 68 form part of these financial statements.

Consolidated balance sheet at 31 December 2009

(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Fixed assets	11(a)		
– Investment property		**2,920,000**	–
– Other property and equipment		**672,211**	700,721
		3,592,211	700,721
Bank deposits	16	**1,277,691**	782,346
Deferred tax assets	13(b)	**557,761**	89,807
Total non-current assets		**5,427,663**	1,572,874
Current assets			
Properties under development and completed properties held for sale	14	**21,520,795**	13,898,145
Trade and other receivables	15	**1,565,984**	691,261
Cash and cash equivalents	17	**9,241,879**	9,908,804
Total current assets		**32,328,658**	24,498,210
Current liabilities			
Bank loans	18	**550,000**	1,233,238
Trade and other payables	19	**7,708,176**	5,335,269
Taxation	13(a)	**3,700,397**	2,278,387
Total current liabilities		**11,958,573**	8,846,894
Net current assets		**20,370,085**	15,651,316
Total assets less current liabilities		**25,797,748**	17,224,190

The notes on pages 11 to 68 form part of these financial statements.

Consolidated balance sheet (continued)
at 31 December 2009

(Expressed in Renminbi)

	Note	**2009**	2008
		RMB'000	*RMB'000*
Non-current liabilities			
Bank loans	*18*	**5,769,660**	3,000,000
Convertible bonds	*20*	**1,958,783**	–
Contract retention payables		**22,241**	26,719
Deferred tax liabilities	*13(b)*	**604,537**	72,584
Total non-current liabilities		**8,355,221**	3,099,303
NET ASSETS		**17,442,527**	14,124,887
CAPITAL AND RESERVES	*21*		
Share capital		**107,485**	107,485
Reserves		**17,116,130**	13,880,557
Total equity attributable to equity shareholders of the Company		**17,223,615**	13,988,042
Minority interests		**218,912**	136,845
TOTAL EQUITY		**17,442,527**	14,124,887

Approved and authorised for issue by the board of directors on 11 March 2010.

Directors

Pan Shiyi Pan Zhang Xin Marita

The notes on pages 11 to 68 form part of these financial statements.

Balance sheet
at 31 December 2009

(Expressed in Renminbi)

	Note	2009 *RMB'000*	2008 *RMB'000*
Non-current assets			
Investments in subsidiaries	*12*	**294,423**	294,423
Current assets			
Properties under development and completed properties held for sale		**80,265**	80,265
Trade and other receivables	*15*	**13,499,024**	10,258,840
Cash and cash equivalents	*17*	**1,062,772**	1,386,573
Total current assets		**14,642,061**	11,725,678
Current liabilities			
Other payables		**24,261**	33,665
Amounts due to subsidiaries		**683,982**	764,012
Total current liabilities		**708,243**	797,677
Net current assets		**13,933,818**	10,928,001
Total assets less current liabilities		**14,228,241**	11,222,424
Non-current liabilities			
Convertible bonds	*20*	**1,958,783**	–
NET ASSETS		**12,269,458**	11,222,424
CAPITAL AND RESERVES	*21*		
Share capital		**107,485**	107,485
Reserves		**12,161,973**	11,114,939
TOTAL EQUITY		**12,269,458**	11,222,424

Approved and authorised for issue by the board of directors on 11 March 2010.

Directors

Pan Shiyi Pan Zhang Xin Marita

The notes on pages 11 to 68 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2009

(Expressed in Renminbi)

	Note	Share capital	Share premium	Capital redemption reserve	Treasury shares	Capital reserve	Exchange reserve	Revaluation reserve	General reserve fund	Retained profits	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*	*RMB'000*
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)(i)*												
– 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	*21(b)*	–	–	–	–	–	–	–	–	(523,241)	(523,241)	–	(523,241)
Equity settled share-based transactions	*23*	–	–	–	–	25,526	–	–	–	–	25,526	–	25,526
Transfer to general reserve fund	*21(d)(v)*	–	–	–	–	–	–	–	40,961	(40,961)	–	–	–
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)
Total comprehensive income for the year		–	–	–	–	–	(255,826)	4,880	–	399,073	148,127	23,867	171,994
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
At 1 January 2009		**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**
Treasury shares	*21(c)(ii)*	**–**	**–**	**–**	**(8,775)**	**–**	**–**	**–**	**–**	**–**	**(8,775)**	**–**	**(8,775)**
Equity component of the Convertible Bonds	*20*	**–**	**–**	**–**	**–**	**514,395**	**–**	**–**	**–**	**–**	**514,395**	**–**	**514,395**
Dividends approved in respect of the previous year	*21(b)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(518,766)**	**(518,766)**	**–**	**(518,766)**
Equity settled share-based transactions	*23*	**–**	**–**	**–**	**–**	**9,648**	**–**	**–**	**–**	**–**	**9,648**	**–**	**9,648**
Transfer to general reserve fund	*21(d)(v)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**136,638**	**(136,638)**	**–**	**–**	**–**
Acquisition of minority interests	*21(f)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,205)**	**(2,205)**	**–**	**(2,205)**
Distributions to minority interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,445)**	**(12,445)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(58,902)**	**–**	**–**	**3,300,178**	**3,241,276**	**94,512**	**3,335,788**
At 31 December 2009		**107,485**	**11,424,236**	**867**	**(8,775)**	**559,934**	**(665,193)**	**216,232**	**395,681**	**5,193,148**	**17,223,615**	**218,912**	**17,442,527**

The notes on pages 11 to 68 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2009

(Expressed in Renminbi)

	Note	**2009** **RMB'000**	2008 RMB'000
Operating activities			
Profit before taxation		**5,658,710**	1,149,159
Adjustments for:			
– Valuation gain on investment property		**(2,144,461)**	–
– Depreciation		**24,010**	22,311
– Financial income		**(233,693)**	(204,671)
– Interest expense		**137,120**	8,210
– Net foreign exchange loss		**–**	124,063
– Loss on sale of property and equipment		**16**	753
– Equity-settled share-based payment expense		**9,648**	25,526
Operating profit before changes in working capital		**3,451,350**	1,125,351
Increase in trade and other receivables		**(385,148)**	(280,388)
Increase in properties under development and completed properties held for sale		**(2,733,483)**	(746,491)
Increase/(decrease) in trade and other payables		**3,464,945**	(904,944)
Cash generated from/(used in) operation		**3,797,664**	(806,472)
Interest received		**150,878**	205,605
Interest paid		**(322,585)**	(161,403)
Income tax paid		**(647,728)**	(1,332,814)
Net cash generated from/(used in) operating activities		**2,978,229**	(2,095,084)
Cash flows from investing activities			
Payment for purchase of fixed assets		**(1,352,793)**	(17,976)
Proceeds from sale of property and equipment		**87**	911
Increase in term deposits with banks and other financial institutions over 3 months		**(1,097,111)**	(1,022,000)
(Increase)/decrease in bank deposits		**(495,345)**	464,900
Payment for purchase of derivative financial instruments		**(22,138)**	(28,248)
Proceeds from settlement of derivative financial instruments		**84,344**	16,015
New advances to related parties		**(10,333)**	(32,680)
Repayments from related parties		**42,246**	74,891
Net cash outflow arising from the acquisition of subsidiaries		**(4,768,003)**	(1,599,498)
Acquisition of minority interests	*21(f)*	**(2,205)**	(3,810)
Net cash used in investing activities		**(7,621,251)**	(2,147,495)

The notes on pages 11 to 68 form part of these financial statements.

Consolidated cash flow statement (continued)
for the year ended 31 December 2009

(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Cash flows from financing activities			
Proceeds from bank loans		**2,153,972**	3,000,000
Repayment of bank loans		**(1,117,550)**	(2,537,936)
Proceeds from issue of the Convertible Bonds		**2,467,864**	–
Payment of transaction costs on issue of the Convertible Bonds		**(38,510)**	–
Payment for repurchase of own shares	*21(c)(i)*	**–**	(113,792)
Payment for purchase of treasury shares	*21(c)(ii)*	**(8,775)**	–
Repayment of advances from a third party		**(36,401)**	(15,000)
Capital contribution from minority interests		**–**	3,465
Dividends paid to equity shareholders of the Company		**(518,766)**	(523,241)
Distributions to minority interests		**(12,445)**	(53,016)
Net cash generated from/(used in) financing activities		**2,889,389**	(239,520)
Net decrease in cash and cash equivalents		**(1,753,633)**	(4,482,099)
Cash and cash equivalents at beginning of year		**8,886,804**	13,748,792
Effect of foreign exchange rate changes		**(10,403)**	(379,889)
Cash and cash equivalents at end of year	*17*	**7,122,768**	8,886,804

The notes on pages 11 to 68 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 2009 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 property (see Note 1(e)), office premises (see Note 1(f)), derivative financial instruments (see Note 1(d)) and convertible bonds (see Note 1(j)), which are stated at their fair value as explained in the accounting policies set out 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 major sources of estimation uncertainty are discussed in Note 28.

(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.

1 Significant accounting policies (continued)

(c) Subsidiaries and minority interests (continued)

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 and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company. Any difference between the consideration paid and the carrying amount of minority interests acquired when the Group acquires minority interest is treated as an equity transaction.

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

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

(d) 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.

(e) Investment property

Investment properties are land and/or buildings which are owned to earn rental income and for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the balance sheet at fair value, unless they are still in the course of construction or development at the balance sheet date and their fair value cannot be reliably determined at that time. 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).

(f) Other 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.

1 Significant accounting policies (continued)

(f) Other property and equipment (continued)

Serviced apartment 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(g)).

Changes arising on the revaluation of office premises are generally dealt with in other comprehensive income and are accumulated separately in equity in the revaluation reserve. The only exceptions are as follows:

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

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

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

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item 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 and is not reclassified to profit or loss.

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 parts 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 parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Impairment of assets

(i) Impairment of receivables

Investments in 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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments; and

1 Significant accounting policies (continued)

(g) Impairment of assets (continued)

(i) Impairment of receivables (continued)

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

If any such evidence exists, the impairment loss for trade and other current receivables and other financial assets carried at amortised cost 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 effect of 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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(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 office premises 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 its fair value less costs to sell 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 if 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.

1 Significant accounting policies (continued)

(g) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

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

– Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, 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.

(i) Trade and other receivables

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

1 Significant accounting policies (continued)

(j) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

(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.

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 resulting 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 profits).

(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 other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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.

1 Significant accounting policies (continued)

(o) Income tax (continued)

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.

(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.

1 Significant accounting policies (continued)

(p) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) Financial guarantees issued (continued)

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

Revenue is measured at the fair value of the consideration received or receivable. 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 arising 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.

1 Significant accounting policies (continued)

(q) Revenue recognition (continued)

(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. Rental income from operating leases excludes business tax. 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

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 from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(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 RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1 Significant accounting policies (continued)

(s) Borrowing costs

Borrowing costs that are 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 are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is 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, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss 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

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

1 Significant accounting policies (continued)

(v) Segment reporting (continued)

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, Operating segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Amendments to HKAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
- HKAS 23 (revised 2007), Borrowing costs
- Amendments to HKFRS 2, Share-based payment – vesting conditions and cancellations
- HK(IFRIC) 15, Agreements for the construction of real estate

The amendments to HKAS 23 and HKFRS 2 and Interpretation HK(IFRIC) 15 have had no material impact on the Group's financial statements as the amendments and Interpretation were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see Note 3). Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

2 Changes in accounting policies (continued)

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment of the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, whether out of pre– or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3 Turnover and segment reporting

(a) Turnover

The principal activities of the Group are property development and property investments. Turnover represents revenue from the sale of property units and rental income from investment property, net of business tax, analysed as follows:

	2009	2008
	RMB'000	*RMB'000*
Sale of property units	**7,342,132**	3,121,375
Rental income from investment property	**71,319**	–
	7,413,451	3,121,375

(b) Segment reporting

The Group manages its businesses based on development status of current projects, which are divided into completed projects held for sale and projects under development, and investment property. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

(i) Completed projects held for sale

This segment includes projects which have been completed and the Group has obtained completion certificates for those projects.

(ii) Projects under development

This segment includes projects which are under development.

(iii) Investment property

This segment includes one project which has been completed and is held to earn rental income.

3 Turnover and segment reporting (continued)

(c) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets and liabilities include all non-current assets and liabilities and current assets and liabilities with the exception of unallocated head office and corporate assets and liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. Head office and corporate expenses are not allocated to individual segments.

Segment profit represents the profit after taxation generated by individual segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Management is provided with segment information concerning turnover, cost of properties sold, gross profit, valuation gain on investment property, net operating expenses, financial income, financial expenses, government grants, income tax, investment property, properties under development and completed properties held for sale, cash and cash equivalents, bank deposits in non-current assets, bank loans, and capital expenditure on fixed assets.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for purposes of resources allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out below:

	Completed projects held for sale		Projects under development		Investment property		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Income statement items								
Reportable segment revenue	**7,342,132**	3,121,375	**–**	–	**71,319**	–	**7,413,451**	3,121,375
Cost of properties sold	**(3,556,393)**	(1,577,391)	**–**	–	**–**	–	**(3,556,393)**	(1,577,391)
Reportable segment gross profit	**3,785,739**	1,543,984	**–**	–	**71,319**	–	**3,857,058**	1,543,984
Valuation gain on investment property	**–**	–	**–**	–	**2,144,461**	–	**2,144,461**	–
Operating expenses, net	**(229,073)**	(243,353)	**(73,855)**	(161,566)	**(4,603)**	–	**(307,531)**	(404,919)
Financial income	**35,188**	152,168	**95,880**	62,024	**823**	–	**131,891**	214,192
Financial expenses	**(81,550)**	(124,683)	**(12,092)**	(2,817)	**(6,215)**	–	**(99,857)**	(127,500)
Government grants	**23,795**	26,337	**–**	–	**–**	–	**23,795**	26,337
Reportable segment profit/(loss) before taxation	**3,534,099**	1,354,453	**9,933**	(102,359)	**2,205,785**	–	**5,749,817**	1,252,094
Income tax	**(1,704,167)**	(795,260)	**(23,739)**	52,308	**(551,446)**	–	**(2,279,352)**	(742,952)
Reportable segment profit/(loss)	**1,829,932**	559,193	**(13,806)**	(50,051)	**1,654,339**	–	**3,470,465**	509,142

3 Turnover and segment reporting (continued)

(c) Segment results, assets and liabilities (continued)

	Completed projects held for sale		Projects under development		Investment property		Total	
	2009 **RMB'000**	2008 RMB'000	**2009** **RMB'000**	2008 RMB'000	**2009** **RMB'000**	2008 RMB'000	**2009** **RMB'000**	2008 RMB'000
Balance sheet items								
Investment property	**–**	–	**–**	–	**2,920,000**	–	**2,920,000**	–
Properties under development and completed properties held for sale	**6,476,512**	1,646,114	**15,191,228**	12,397,461	**–**	–	**21,667,740**	14,043,575
Cash and cash equivalents	**2,233,776**	3,236,584	**5,398,684**	5,256,033	**10,537**	–	**7,642,997**	8,492,617
Bank deposits in non-current assets	**643,386**	642,418	**634,305**	139,928	**–**	–	**1,277,691**	782,346
Bank loans	**550,000**	1,000,000	**4,200,000**	3,233,238	**–**	–	**4,750,000**	4,233,238
Reportable segment assets	**15,335,019**	10,879,801	**26,656,148**	20,582,901	**3,606,364**	–	**45,597,531**	31,462,702
Reportable segment liabilities	**12,365,241**	9,125,707	**14,590,533**	10,151,596	**1,902,023**	–	**28,857,797**	19,277,303
Capital expenditure on fixed assets	**3,523**	12,435	**1,996**	5,541	**775,539**	–	**781,058**	17,976

3 Turnover and segment reporting (continued)

(d) Reconciliations of reportable segment profit or loss, assets and liabilities

	2009 *RMB'000*	2008 *RMB'000*
Profit		
Reportable segment profit	**3,470,465**	509,142
Elimination of intra-group profit	**(45,993)**	(50,198)
Unallocated head office and corporate expenses	**(29,782)**	(36,004)
Consolidated profit	**3,394,690**	422,940
Properties under development and completed properties held for sale		
Reportable segment properties under development and completed properties held for sale	**21,667,740**	14,043,575
Elimination of intra-group transactions	**(146,945)**	(145,430)
Consolidated properties under development and completed properties held for sale	**21,520,795**	13,898,145
Cash and cash equivalents		
Reportable segment cash and cash equivalents	**7,642,997**	8,492,617
Unallocated head office and corporate cash and cash equivalents	**1,598,882**	1,416,187
Consolidated cash and cash equivalents	**9,241,879**	9,908,804

3 Turnover and segment reporting (continued)

(d) Reconciliations of reportable segment profit or loss, assets and liabilities (continued)

	2009	2008
	RMB'000	*RMB'000*
Bank loans		
Reportable segment bank loans	**4,750,000**	4,233,238
Unallocated head office and corporate bank loans	**1,569,660**	–
Consolidated bank loans	**6,319,660**	4,233,238
Assets		
Reportable segment assets	**45,597,531**	31,462,702
Elimination of intra-group balances	**(12,293,596)**	(8,344,147)
Unallocated head office and corporate assets	**4,452,386**	2,952,529
Consolidated total assets	**37,756,321**	26,071,084
Liabilities		
Reportable segment liabilities	**28,857,797**	19,277,303
Elimination of intra-group balances	**(12,194,619)**	(8,318,704)
Unallocated head office and corporate liabilities	**3,650,616**	987,598
Consolidated total liabilities	**20,313,794**	11,946,197

4 Profit before taxation

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

(a) Financial income and expenses

	2009 RMB'000	2008 RMB'000
Financial income		
Interest income	**(150,878)**	(189,014)
Net foreign exchange gain	**(48,499)**	–
Net gain on derivative financial instruments	**(34,316)**	(15,657)
	(233,693)	(204,671)
Financial expenses		
Interest on bank loans wholly repayable within five years	**248,993**	156,261
Interest expenses on the Convertible Bonds	**89,619**	–
Less: Interest expense capitalised into properties under development*	**(201,492)**	(148,051)
	137,120	8,210
Net foreign exchange loss	**–**	124,063
Bank charges and others	**9,500**	3,279
	146,620	135,552

* The borrowing costs were capitalised at a rate of 5.16% – 7.56% per annum (2008: 5.16% – 7.56%).

(b) Staff costs

	Note	2009 RMB'000	2008 RMB'000
Salaries, wages and other benefits		**145,289**	147,939
Contributions to defined contribution retirement plan		**8,701**	9,098
Equity-settled share-based payment expenses	23	**9,648**	25,526
		163,638	182,563

4 Profit before taxation (continued)

(c) Other items

	2009 *RMB'000*	2008 *RMB'000*
Depreciation	**24,010**	22,311
Auditors' remuneration		
– audit services	**7,743**	9,674
– tax services	**1,701**	1,257
– other services	**1,406**	755
Operating lease charges in respect of properties	**1,658**	3,957
Rentals receivable from investment properties less direct outgoings of RMB nil (2008: RMB nil)	**71,319**	–

5 Government grants

The Group received government grants of RMB8,840,000 (2008: RMB nil) from the Finance Bureau of Huairou County of Beijing pursuant to the local regulations issued by the People's Government of Huairou County of Beijing in relation to SOHO Newtown project, RMB12,255,000 (2008: RMB26,337,000) from the Finance Bureau of Chongwen District of Beijing pursuant to the local regulations issued by the People's Government of Chongwen District of Beijing in relation to Guanghualu SOHO project, and RMB2,700,000 (2008: RMB nil) from the Finance Bureau of Chaoyang District of Beijing pursuant to Notice of Rewards issued by the Development and Reform Commission of Chaoyang District of Beijing in relation to Jianwai SOHO project.

6 Income tax in the consolidated income statement

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

	Note	2009 *RMB'000*	2008 *RMB'000*
PRC Corporate Income Tax			
– Provision for the year		**1,022,324**	314,326
– Under-provision in respect of prior years		**30,785**	–
Land Appreciation Tax		**1,081,909**	477,056
Deferred tax	*13(b)*	**129,002**	(65,163)
		2,264,020	726,219

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.

In accordance with the Corporate Income Tax Law of the People's Republic of China, the income tax rate applicable to the Company's subsidiaries in the PRC is ranged from 20% to 25% (2008: 18% to 25%).

6 Income tax in the consolidated income statement (continued)

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

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:

	2009 *RMB'000*	2008 *RMB'000*
Profit before taxation	**5,658,710**	1,149,159
Income tax computed by applying the tax rate of 25% (2008: 25%) to profit before taxation	**1,414,678**	287,290
Tax effect of Land Appreciation Tax deductible for PRC Corporate Income Tax	**(270,477)**	(119,264)
Effect of differential tax rate on (income)/loss	**(34,944)**	13,945
Tax effect of unused losses not recognised	**3,787**	47,564
Under-provision in prior years	**30,785**	–
Tax effect of non-deductible expenses	**38,282**	19,628
Provision for Land Appreciation Tax for the year	**1,081,909**	477,056
Actual tax expense	**2,264,020**	726,219

7 Directors' remuneration

Details of directors' remuneration are as follows:

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement scheme contributions *RMB'000*	Sub-total *RMB'000*	Share–based payments (Note 7(i)) *RMB'000*	Total *RMB'000*
2009						
Chairman						
Pan Shiyi	**240**	**5,191**	**37**	**5,468**	**–**	**5,468**
Executive directors						
Pan Zhang Xin Marita	**240**	**4,613**	**–**	**4,853**	**–**	**4,853**
Yan Yan	**240**	**4,647**	**37**	**4,924**	**1,044**	**5,968**
Su Xin (resigned on 30 September 2009)	**180**	**3,092**	**27**	**3,299**	**726**	**4,025**
Wang Shaojian Sean	**240**	**4,611**	**–**	**4,851**	**217**	**5,068**
Independent non–executive directors						
Ramin Khadem	**308**	**–**	**–**	**308**	**–**	**308**
Cha Mou Zing Victor	**220**	**–**	**–**	**220**	**–**	**220**
Yi Xiqun	**220**	**–**	**–**	**220**	**–**	**220**
	1,888	**22,154**	**101**	**24,143**	**1,987**	**26,130**

7 Directors' remuneration (continued)

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement scheme contributions *RMB'000*	Sub-total *RMB'000*	Share–based payments (Note 7(i)) *RMB'000*	Total *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

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) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in Note 23.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2008: four) are directors whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other one (2008: one) individual are as follows:

	2009 ***RMB'000***	2008 *RMB'000*
Salaries and other emoluments	**3,497**	3,412
Retirement scheme contributions	**37**	33
Share-based payments	**822**	2,159
	4,356	5,604

The emoluments of the one (2008: one) individual with the highest emoluments are within the following bands:

RMB	**2009 Number of individuals**	2008 Number of individuals
4,000,001-4,500,000	**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 RMB68,355,000 (2008: RMB39,757,000) which has been dealt with in the financial statements of the Company.

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB3,300,178,000 (2008: RMB399,073,000) and the weighted average of 5,187,003,000 ordinary shares (2008: 5,218,966,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Note	**2009** **'000**	2008 *'000*
Issued ordinary shares at 1 January		**5,187,657**	5,232,413
Effect of repurchase of own shares	*21(c)(i)*	**–**	(13,447)
Effect of treasury shares	*21(c)(ii)*	**(654)**	–
Weighted average number of ordinary Shares at 31 December		**5,187,003**	5,218,966

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB3,389,797,000 (2008: RMB399,073,000) and the weighted average number of ordinary shares of RMB5,424,446,000 shares (2008: RMB5,218,966,000), calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2009 ***RMB'000***	2008 *RMB'000*
Profit attributable to ordinary equity shareholders	**3,300,178**	399,073
After tax effect of effective interest on the liability component of the Convertible Bonds	**89,619**	–
Profit attributable to ordinary equity shareholders (diluted)	**3,389,797**	399,073

10 Earnings per share (continued)

(b) Diluted earnings per share (continued)

(ii) Weighted average number of ordinary shares (diluted)

	2009 ***'000***	2008 *'000*
Weighted average number of ordinary shares at 31 December	**5,187,003**	5,218,966
Effect of conversion of convertible bonds	**237,443**	–
Weighted average number of ordinary shares (diluted) at 31 December	**5,424,446**	5,218,966

The share options granted to the employees did not have dilutive effect as at 31 December 2009 and 2008.

11 Fixed assets

(a) The Group

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

11 Fixed assets (continued)

(a) The Group (continued)

	Office premises *RMB'000*	Serviced apartment properties *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Sub-total *RMB'000*	Investment property *RMB'000*	Total *RMB'000*
Cost of valuation (continued)**:**							
At 1 January 2009	288,534	465,312	30,332	5,824	790,002	–	790,002
Additions	–	786	3,273	1,460	5,519	775,539	781,058
Transfer to properties under development and completed properties held for sale	–	(11,081)	–	–	(11,081)	–	(11,081)
Acquisition of subsidiaries (Note 27)	–	–	91	–	91	–	91
Disposals	–	–	(109)	(192)	(301)	–	(301)
Fair value adjustment	–	–	–	–	–	2,144,461	2,144,461
At 31 December 2009	288,534	455,017	33,587	7,092	784,230	2,920,000	3,704,230
Representing:							
Cost	–	455,017	33,587	7,092	495,696	–	495,696
Valuation –2009	–	–	–	–	–	2,920,000	2,920,000
Valuation –2008	288,534	–	–	–	288,534	–	288,534
	288,534	455,017	33,587	7,092	784,230	2,920,000	3,704,230

11 Fixed assets (continued)

(a) The Group (continued)

	Office premises *RMB'000*	Serviced apartment properties *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Sub-total *RMB'000*	Investment property *RMB'000*	Total *RMB'000*
Accumulated depreciation:							
At 1 January 2008	21,634	52,765	12,821	1,398	88,618	–	88,618
Charge for the year	7,512	10,150	3,998	651	22,311	–	22,311
Written back on transfer to properties under development and completed properties held for sale	(21,634)	–	–	–	(21,634)	–	(21,634)
Acquisition of a subsidiary	–	–	1,211	4,930	6,141	–	6,141
Written back on disposals	–	–	(998)	(5,157)	(6,155)	–	(6,155)
At 31 December 2008	7,512	62,915	17,032	1,822	89,281	–	89,281
At 1 January 2009	7,512	62,915	17,032	1,822	89,281	–	89,281
Charge for the year	6,845	11,423	4,403	1,339	24,010	–	24,010
Written back on transfer to properties under development and completed properties held for sale	–	(1,142)	–	–	(1,142)	–	(1,142)
Acquisition of subsidiaries (Note 27)	–	–	68	–	68	–	68
Written back on disposals	–	–	(15)	(183)	(198)	–	(198)
At 31 December 2009	14,357	73,196	21,488	2,978	112,019	–	112,019
Net book value:							
At 31 December 2009	274,177	381,821	12,099	4,114	672,211	2,920,000	3,592,211
At 31 December 2008	281,022	402,397	13,300	4,002	700,721	–	700,721

11 Fixed assets (continued)

(b) The Company

	Office premises *RMB'000*
Cost or valuation:	
At 1 January 2008	141,945
Transfer to properties under development and completed properties held for sale	(141,945)
At 31 December 2008, 1 January 2009 and 31 December 2009	–
Accumulated depreciation:	
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, 1 January 2009 and 31 December 2009	–
Net book value:	
At 31 December 2009 and 2008	–

(c) Revaluation of investment properties

All investment properties of the Group were revalued as at 31 December 2009 on an open market value basis by making reference to comparable sales transaction as available in the relevant market, and where appropriate, taking into account of the valuation based on the income capitalization approach. The valuations were carried out by CB Richard Ellis Ltd., a firm of independent qualified valuers in Hong Kong with recent experience in the location and category of property being valued.

(d) Revaluation of office premises

The Group's office premises were revalued as at 31 December 2008 by Tongxin Assets Appraisal Co., Ltd., a firm of independent qualified valuer with recent experience in the location and category of property being valued, in the PRC, at their open market value. As at 31 December 2008, the revaluation surplus of RMB4,880,000 has been recognised in other comprehensive income and accumulated in the revaluation reserve of the Group, net of deferred tax. The carrying amount of the office premises of the Group as at 31 December 2009 did not materially differ from their fair value.

The carrying amount of the office premises of the Group as at 31 December 2009 would has been RMB123,640,000 (2008: RMB126,723,000) had they been carried at cost less accumulated depreciation.

11 Fixed assets (continued)

(e) The analysis of net book value of properties

The net book values of investment property, office premises and serviced apartment properties in aggregate of RMB3,575,998,000 as at 31 December 2009 (2008: RMB683,419,000) were under medium-term leases in the PRC.

(f) Certain portion of the Group's serviced apartment properties were pledged against the bank loans, details are set out in Note 18.

12 Investments in subsidiaries – the Company

	2009 RMB'000	2008 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 ZhongHongTian Real Estate Co., Ltd. *	Beijing, PRC	Development of SOHO Newtown project	USD15,000,000	–	54%
Beijing Redstone Newtown Real Estate Co., Ltd. *	Beijing, PRC	Development of the Commune by the Great Wall project and operation of serviced apartment	USD10,000,000	–	95%
Hainan Redstone Industry Co., Ltd. *	Hainan, PRC	Development of Boao Canal Village project	RMB20,000,000	–	98.1%
Beijing Redstone Jianwai Real Estate Development Co., Ltd. *	Beijing, PRC	Development of Jianwai SOHO project	USD30,000,000	–	95%
SOHO China Leasing Co., Ltd. **	Beijing, PRC	Property leasing and resale services	USD100,000	–	100%
Beijing SOHO Properties Management Co., Ltd. **	Beijing, PRC	Provision of consulting services	USD8,000,000	–	100%
Beijing Shanshi Real Estate Co., Ltd. *	Beijing, PRC	Development of Guanghualu SOHO project	USD38,700,000	–	95%

12 Investments in subsidiaries – the Company (continued)

Name of Company	Place of establishment/ incorporation	Principal activities	Paid-in capital	Attributable equity interest Direct	Attributable equity interest Indirect
Beijing SOHO Real Estate Co., Ltd. *	Beijing, PRC	Development of Sanlitun SOHO project	USD97,020,000	–	95%
Beijing Chaowai SOHO Real Estate Co., Ltd. *	Beijing, PRC	Development of Chaowai SOHO project	USD20,000,000	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%
Beijing Suo Tu Shi Ji Investment Management Co., Ltd. ***	Beijing, PRC	Development of ZhongGuanCun SOHO project	RMB10,000,000	–	100%
Beijing Zhanpeng Century Investment Management Co., Ltd. ***	Beijing, PRC	Investment in Tiananmen South (Qianmen) project	RMB10,000,000	–	100% *Note (i)*
SOHO Exchange Limited (formerly known as "MSREF Anderson")	Cayman Islands	Development of The Exchange-SOHO project	USD1,000	–	100% *Note (ii)*
Beijing Wangjing SOHO Real Estate Co., Ltd. *	Beijing, PRC	Development of Wangjing SOHO project	USD99,000,000	–	100% *Note (iii)*
Beijing Bluewater Property Management Co., Ltd. **	Beijing, PRC	Development of SOHO Nexus Centre project	USD12,000,000	–	100% *Note (iv)*

* 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.

12 Investments in subsidiaries – the Company (continued)

(i) Beijing Zhanpeng Century Investment Management Co., Ltd. ("Beijing Zhanpeng")

In 2007, the Group entered into a series of agreements with Beijing Tianjie Real Estate Development Company Limited ("Beijing Tianjie"), the project company developing the Tiananmen South (Qianmen) project, Beijing Danshi Investment Management Co., Ltd. ("Beijing Danshi"), a company controlled by Mr. Pan Shiyi, and 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 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.

As the government approvals in respect of the acquisition have not been forthcoming, a framework agreement and a supplemental agreement (the "Restructuring Agreements") were entered into on 15 May 2009 to restructure the Agreements. The Restructuring Agreements allowed the Group to acquire from Beijing Danshi the right to purchase certain properties of Tiananmen South (Qianmen) project.

In 2009, pursuant to the Restructuring Agreement, Beijing Zhanpeng, a wholly owned subsidiary of the Company, acquired certain completed properties from Beijing Tianjie. The properties acquired are held by Beijing Zhanpeng to earn rentals and accounted for as investment properties.

(ii) SOHO Exchange Limited

In 2009, the Group entered into an equity transfer agreement with a third party to acquire the entire equity interest in SOHO Exchange Limited (formerly known as "MSREF Anderson"), that owns the entire building of The Exchange, a multi-storey office and retail complex located at Nan Jing Road West, Shanghai, the PRC, which was renamed to The Exchange-SOHO after the acquisition by the Group.

(iii) Beijing Wangjing SOHO Real Estate Co., Ltd. ("Beijing Wangjing")

In 2009, the Group acquired the land use right to a parcel of land, plot B29 situated in the centre of Wang Jing, Chaoyang District, Beijing, the PRC.

(iv) Beijing Bluewater Property Management Co., Ltd. ("Beijing Bluewater")

In 2009, the Group entered into an equity transfer agreement with third parties to acquire all the issued and outstanding common quotas of Bluewater 2 Holding SRL, a company incorporated in Barbados and its wholly owned subsidiary, Beijing Bluewater, that holds Nexus Centre, a 37-storey office and retail complex located at East Third Ring Road, Beijing, the PRC, which was renamed to SOHO Nexus Centre after the acquisition by the Group.

13 Income tax in the consolidated balance sheet – the Group

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

	2009 *RMB'000*	2008 *RMB'000*
PRC Corporate Income Tax payable	**767,241**	232,948
Land Appreciation Tax payable	**2,933,156**	2,045,439
	3,700,397	2,278,387

(b) Deferred tax assets and liabilities recognised:

(i) 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** *RMB'000*	**Properties under development and completed properties held for sale** *RMB'000*	**Investment property** *RMB'000*	**Office premises** *RMB'000*	**Derivative financial instruments** *RMB'000*	**Total** *RMB'000*
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
At 1 January 2009		89,807	(23,167)	–	(39,682)	(9,735)	17,223
Credited/(charged) to profit and loss	*6(a)*	(63,137)	460,515	(536,115)	–	9,735	(129,002)
Acquisition of subsidiaries	*27*	65,003	–	–	–	–	65,003
At 31 December 2009		91,673	437,348	(536,115)	(39,682)	–	(46,776)

13 Income tax in the consolidated balance sheet – the Group (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

(ii) Reconciliation to the balance sheet:

	2009	2008
	RMB'000	*RMB'000*
Deferred tax assets recognised on the balance sheet	**557,761**	89,807
Deferred tax liabilities recognised on the balance sheet	**(604,537)**	(72,584)
	(46,776)	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 RMB284,210,000 as at 31 December 2009 (2008: RMB274,964,000), 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 2009, RMB14,312,000, RMB22,496,000, RMB33,618,000, RMB130,628,000 and RMB83,156,000 of these tax losses will expire in 2010, 2011, 2012, 2013 and 2014 respectively.

(d) Deferred tax liabilities not recognised

Under the Corporate Income Tax Law of the People's Republic of China, 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 2009, temporary differences relating to the undistributed profits of these subsidiaries amounted to RMB3,850,685,000 (2008: RMB733,210,000). Deferred tax liabilities of RMB385,069,000 (2008: RMB73,321,000) 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.

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

	2009	2008
	RMB'000	*RMB'000*
Properties under development	**13,153,953**	10,982,786
Completed properties held for sale	**8,366,842**	2,915,359
	21,520,795	13,898,145

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

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

	2009	2008
	RMB'000	*RMB'000*
In the PRC		
– long lease	**1,454,227**	2,405,026
– medium-term lease	**11,934,291**	7,280,232
	13,388,518	9,685,258

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

	2009	2008
	RMB'000	*RMB'000*
Properties under development	**9,439,056**	8,934,837

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 2009 amounted to RMB3,556,393,000 (2008: RMB1,577,391,000).

(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 18.

15 Trade and other receivables

	Note	**2009**	2008
		RMB'000	*RMB'000*
The Group			
Trade receivables	*(a)*	**567,996**	230,531
Amounts due from related parties	*26(a)*	**4,414**	35,221
Other receivables		**106,252**	40,371
Less: Allowance for doubtful debts	*(b)*	**(7,720)**	(1,650)
Loans and receivables	*(c)*	**670,942**	304,473
Deposits and prepayments		**895,042**	347,567
Derivate financial instruments		**–**	39,221
		1,565,984	691,261

15 Trade and other receivables (continued)

	Note	2009 RMB'000	2008 RMB'000
The Company			
Amounts due from subsidiaries	*(c)*	**13,499,024**	10,258,840

(a) Ageing analysis

The ageing analysis of trade receivables are as follows:

	2009 RMB'000	2008 RMB'000
Current	**491,159**	93,231
Less than 1 month past due	**12,412**	536
1 to 6 months past due	**1,244**	68,780
6 months to 1 year past due	**16,554**	9,996
More than 1 year past due	**46,627**	57,988
Amounts past due	**76,837**	137,300
	567,996	230,531

The Group's credit policy is set out in Note 24(a).

(b) Impairment of loans and receivables

Impairment losses in respect of loans and receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against loans and receivables directly (see Note 1(g)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2009 RMB'000	2008 RMB'000
At 1 January	**1,650**	2,360
Impairment loss recognised/(reversed), net	**6,070**	(710)
At 31 December	**7,720**	1,650

15 Trade and other receivables (continued)

(b) Impairment of loans and receivables (continued)

At 31 December 2009, the Group's loan and receivables of RMB7,720,000 (2008: RMB1,650,000) were individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that no receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB7,720,000 (2008: RMB1,650,000) respectively were recognised. The Group does not hold any collateral over these balances.

(c) Loans and receivables that are not impaired

The ageing analysis of loans and receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**491,159**	103,281	**13,499,024**	10,258,840
Less than 1 month past due	**57,490**	2,743	**–**	–
1 to 6 months past due	**8,504**	107,141	**–**	–
6 months to 1 year past due	**42,572**	21,281	**–**	–
More than 1 year past due	**71,217**	70,027	**–**	–
	179,783	201,192	**–**	–
	670,942	304,473	**13,499,024**	10,258,840

Receivables that were neither past due nor impaired relate to customers and debtors for whom there was no recent history of default.

Receivables that were past due but not impaired mainly relate to a number of independent customers to whom the title of the property units have not been transferred and debtors that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group holds the title of the property units as collateral over the balance of trade receivables and does not hold any collateral over the balance of other receivables.

16 Bank deposits – the Group

	Note	**2009** **RMB'000**	2008 RMB'000
Bank deposits for:			
Guarantees for mortgage loans	*(i)*	**557,041**	616,333
Guarantees for construction fees	*(ii)*	**96,055**	166,013
Guarantees for bank loans	*(iii)*	**624,595**	–
		1,277,691	782,346

The above bank deposits are restricted as follows:

(i) 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 2009, the Group had deposits of RMB557,041,000 (2008: RMB616,333,000) 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.

(ii) As at 31 December 2009, pursuant to a government regulation which took effective in 2008, the Group had deposits of RMB96,055,000 (2008: RMB166,013,000) 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.

(iii) As at 31 December 2009, the Group had deposits of RMB624,595,000 (2008: RMB nil) as non-cancellable guarantees on bank loans of RMB2,400,000,000. Should the Group fails to settle the bank loans, 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.

17 Cash and cash equivalents

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash on hand	**1,805**	2,125	**–**	–
Cash at bank and other financial institutions	**5,602,951**	4,613,530	**379,952**	109,382
Term deposits with banks and other financial institutions	**3,637,123**	5,293,149	**682,820**	1,277,191
Cash and cash equivalents in the balance sheet	**9,241,879**	9,908,804	**1,062,772**	1,386,573
Less: Term deposits with banks and other financial institutions over 3 months	**2,119,111**	1,022,000		
Cash and cash equivalents in the consolidated cash flow statements	**7,122,768**	8,886,804		

18 Bank loans-the Group

The bank loans were repayable as follows:

	2009	2008
	RMB'000	*RMB'000*
Within 1 year or on demand	**550,000**	1,233,238
After 1 year but within 2 years	**2,400,000**	–
After 2 year but within 5 years	**3,369,660**	3,000,000
	5,769,660	3,000,000
	6,319,660	4,233,238

18 Bank loans-the Group (continued)

The bank loans were secured as follows:

	2009	2008
	RMB'000	*RMB'000*
Secured	**4,750,000**	4,000,000
Unsecured	**1,569,660**	233,238
	6,319,660	4,233,238

As at 31 December 2009, RMB2,350,000,000 bank loans were secured by completed properties held for sale with an aggregate carrying amount of RMB3,660,569,000, and RMB2,400,000,000 bank loan was secured by restricted bank deposits of RMB624,595,000. The bank loans, except a bank loan of RMB1,569,660,000 repayable in 2012 that bore interest at LIBOR plus 1.75%, bore floating interest rates at the base lending rate of the People's Bank of China ("PBOC").

As at 31 December 2008, RMB1,000,000,000 bank loan was secured by the serviced apartment properties with a carrying amount of RMB293,598,000 and properties under development with a carrying value of RMB3,342,583,000, and RMB3,000,000,000 bank loan was secured by properties under development with a carrying amount of RMB5,614,867,000. The bank loans bore floating interest rates at the base lending rate of the PBOC.

19 Trade and other payables – the Group

	Note	**2009**	2008
		RMB'000	*RMB'000*
Accrued expenditure on land and construction	*(i)*	**1,827,479**	1,200,680
Staff salaries and welfare payables		**32,832**	32,738
Consideration payable for acquisition of subsidiaries		**16,320**	1,106,479
Advances from a third party		**–**	39,784
Others		**234,588**	157,886
Financial liabilities measured at amortised costs		**2,111,219**	2,537,567
Sales deposits	*(ii)*	**5,314,274**	2,611,535
Other taxes payable	*(iii)*	**282,683**	174,836
Derivative financial instruments		**–**	11,331
		7,708,176	5,335,269

19 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:

	2009 RMB'000	2008 RMB'000
Due within 1 month or on demand	**350,494**	392,564
Due after 1 month but within 3 months	**1,476,985**	808,116
	1,827,479	1,200,680

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

20 Convertible bonds

On 2 July 2009, the Company issued convertible bonds (the "Convertible Bonds") due 2014, bearing interest at the rate of 3.75% per annum. The aggregate principal amount of the Convertible Bonds issued is Hong Kong dollars ("HKD") 2,800,000,000. Each bond will at the option of the holder be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 11 August 2009 up to and including 25 June 2014 into the Company's fully paid ordinary shares with a par value of HKD0.02 each at an initial conversion price of HKD5.88 per share. The interest is payable semi-annually. The Convertible Bonds are listed on Singapore Stock Exchange Securities Trading Limited.

The initial recognition of the liability component of the Convertible Bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Interest expense is calculated using the effective interest method by applying the effective interest rate of 9.32% to the liability component. The excess of proceeds from the issuance of the Convertible Bonds, net of issuance costs, over the amount initially recognised as the liability component is recognised as the capital reserve in equity. The initial carrying amounts of liability and equity component of the Convertible Bonds were RMB1,914,959,000 and RMB514,395,000 upon issuance, respectively.

As at 31 December 2009, the carrying amounts of the liability component, including the accrued interests, and the equity component of the Convertible Bonds were RMB1,958,783,000 and RMB514,395,000, respectively.

21 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	**Share capital** *RMB'000*	**Share premium** *RMB'000*	**Capital redemption reserve** *RMB'000*	**Capital reserve** *RMB'000*	**Exchange reserve** *RMB'000*	**Revaluation reserve** *RMB'000*	**Retained profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2008		108,352	11,424,236	–	10,365	(384,625)	97,186	1,122,559	12,378,073
Repurchase of own shares	*21(c)(i)*								
– par value paid		(867)	–	–	–	–	–	–	(867)
– premium paid		–	–	–	–	–	–	(112,925)	(112,925)
– transfer between reserves		–	–	867	–	–	–	(867)	–
Dividends approved in respect of the previous year	*21(b)*	–	–	–	–	–	–	(523,241)	(523,241)
Equity settled share-based transactions	*23*	–	–	–	25,526	–	–	–	25,526
Total comprehensive expenses for the year		–	–	–	–	(686,874)	–	142,732	(544,142)
At 31 December 2008		107,485	11,424,236	867	35,891	(1,071,499)	97,186	628,258	11,222,424
At 1 January 2009		**107,485**	**11,424,236**	**867**	**35,891**	**(1,071,499)**	**97,186**	**628,258**	**11,222,424**
Equity component of convertible bonds	*20*	**–**	**–**	**–**	**514,395**	**–**	**–**	**–**	**514,395**
Dividends approved in respect of the previous year	*21(b)*	**–**	**–**	**–**	**–**	**–**	**–**	**(518,766)**	**(518,766)**
Equity settled share-based transactions	*23*	**–**	**–**	**–**	**9,648**	**–**	**–**	**–**	**9,648**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(20,187)**	**–**	**1,061,944**	**1,041,757**
At 31 December 2009		**107,485**	**11,424,236**	**867**	**559,934**	**(1,091,686)**	**97,186**	**1,171,436**	**12,269,458**

21 Capital, reserves and dividends (continued)

(b) Dividends

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

	2009 RMB'000	2008 RMB'000
Final dividend proposed after the balance sheet date of RMB0.20 per share (2008: RMB0.10 per share)	**1,037,531**	518,766

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

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

	2009 RMB'000	2008 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.10 per share (2008: RMB0.10 per share)	**518,766**	523,241

(c) Share capital

	Note	**2009** No. of shares ('000)	**2009** Share capital RMB'000	2008 No. of shares ('000)	2008 Share capital RMB'000
Authorised:					
Ordinary shares of HKD0.02 each		**7,500,000**		7,500,000	
Issued and fully paid:					
At 1 January		**5,187,657**	**107,485**	5,232,413	108,352
Repurchase of own shares	*(i)*	**–**	**–**	(44,756)	(867)
Treasury shares	*(ii)*	**(2,210)**	**–**	–	–
At 31 December		**5,185,447**	**107,485**	5,187,657	107,485

21 Capital, reserves and dividends (continued)

(c) Share capital (continued)

(i) Repurchase of own shares

During the year ended 31 December 2008, the Company repurchased its own shares on the Main Board of The Stock Exchange of Hong Kong Limited as follows:

	Number of shares repurchased	Highest price paid per share *HKD*	Lowest price paid per share *HKD*	Aggregate price paid *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.

During the year ended 31 December 2009, the Company did not repurchase any of its own shares.

21 Capital, reserves and dividends (continued)

(c) Share capital (continued)

(ii) Treasury shares

On 14 September 2009, the Group, through Charm Beat International Limited, a wholly owned subsidiary of the Company, acquired 2,210,000 shares of the Company on market, at a total consideration of HKD9,960,300, for the purpose of setting up an employees' share award scheme in which certain senior management personnel (including any executive directors) of the Group would be entitled to participate. The purpose of the employees' share award scheme is to give incentive to participants in order to retain them for the continued development of the Group. The shares are held as treasury shares and have been deducted from total equity attributable to equity shareholders of the Company.

The aforesaid employees' share award scheme has not been launched as at the date of this report.

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

Exercise period	Exercise price	2009 Number	2008 Number
8 October 2008 to 7 October 2013	HKD8.30	**10,190,575**	11,326,365
30 January 2009 to 29 January 2014	HKD6.10	**5,818,000**	6,654,000
30 June 2009 to 29 June 2014	HKD4.25	**1,080,000**	1,080,000
		17,088,575	19,060,365

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.

21 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(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) and the equity component of the Convertible Bonds (see Note 20).

(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).

(iv) Revaluation reserve

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

The revaluation reserve of the Company in respect of office premises is distributable to the extent of RMB38,986,000 (2008: RMB38,986,000).

(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 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,171,436,000 (2008: RMB628,258,000), 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 RMB20 cents per ordinary share (2008: RMB10 cents per ordinary share), amounting to RMB1,037,531,000 (2008: RMB518,766,000). 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 2009, the Group acquired the minority interests on certain subsidiaries with an aggregate book value of RMB nil (2008: RMB nil) at a total consideration of RMB2,205,000 (2008: RMB4,410,000). The excess of consideration over the book value of RMB2,205,000 (2008: RMB4,410,000) 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.

21 Capital, reserves and dividends (continued)

(g) Capital management (continued)

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 (including convertible bonds) divided by the total assets. As at 31 December 2009, the gearing ratio of the Group was 21.93% (2008: 16.24%).

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 2009 and 2008.

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.

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		

23 Equity settled share-based transactions (continued)

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

	2009 Weighted average exercise price *HKD*	**2009** Number of options *'000*	2008 Weighted average exercise price *HKD*	2008 Number of options *'000*
Outstanding at the beginning of the year	**7.30**	**19,060**	8.30	12,058
Granted during the year	**–**	**–**	5.86	8,339
Forfeited during the year	**7.37**	**(1,971)**	7.30	(1,337)
Outstanding at the end of the year	**7.30**	**17,089**	7.30	19,060
Exercisable at the end of the year	**7.76**	**9,093**	8.30	3,775

The options outstanding at 31 December 2009 had an exercise price of HKD8.30, HKD6.10 or HKD4.25 (2008: HKD8.30, HKD6.10 or HKD4.25) and a weighted average remaining contractual life of 47 months (2008: 59 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%

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 2009 and 2008, 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, issuing convertible bonds, 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.

24 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

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

	2009 Contractual undiscounted cash outflow					2008 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
The Group										
Bank loans	(813,203)	(2,620,147)	(3,413,612)	(6,846,962)	6,319,660	(1,407,737)	(156,859)	(3,112,165)	(4,676,761)	4,233,238
Convertible bonds	(92,450)	(92,450)	(2,696,470)	(2,881,370)	1,958,783	–	–	–	–	–
Contract retention payables	-	(164)	(22,077)	(22,241)	22,241	–	(7,847)	(18,872)	(26,719)	26,719
Financial liabilities measured at amortised costs	(2,111,219)	-	-	(2,111,219)	2,111,219	(2,537,567)	–	–	(2,537,567)	2,537,567
	(3,016,872)	(2,712,761)	(6,132,159)	(11,861,792)	10,411,903	(3,945,304)	(164,706)	(3,131,037)	(7,241,047)	6,797,524
The Company										
Convertible bonds	(92,450)	(92,450)	(2,696,470)	(2,881,370)	1,958,783	–	–	–	–	–
Other payables	(22,419)	-	-	(22,419)	22,419	(14,980)	–	–	(14,980)	14,980
Amounts due to subsidiaries	(683,982)	-	-	(683,982)	683,982	(764,012)	–	–	(764,012)	764,012
	(798,851)	(92,450)	(2,696,470)	(3,587,771)	2,665,184	(778,992)	–	–	(778,992)	778,992

(c) Interest rate risk

The interest rates of the Group's bank loans, convertible bonds and interest-bearing advances to/from related parties are disclosed in Note 18, Note 20 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 2009 (2008: 0.36% to 1.53%).

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in bank borrowing interest rates for bank loans and convertible bonds interest rate, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB22,946,000 (2008: RMB827,000) and would increase/decrease the Group's properties under development and completed properties held for sale by approximately RMB36,962,000 (2008: RMB27,558,000). 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 RMB9,341,000 (2008: RMB15,211,000).

24 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

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 2008.

(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 and bank loans in the consolidated balance sheet and the Company's balance sheet as at 31 December 2009 and 2008, the amounts denominated in currencies other than the functional currency of the entities to which they relate were as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	'000	'000	**'000**	'000
United States Dollars ("USD")				
–Cash and cash equivalents	**236,099**	219,535	**155,399**	198,097
–Bank loans	**(230,000)**	–	**–**	–

5% increase or decrease in USD exchange rate against RMB, assuming such change had occurred as at 31 December 2009, 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 2009 and 2008.

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	
	2009	2008
	RMB'000	*RMB'000*
Contracted for	**1,082,896**	1,661,351
Authorised but not contracted for	**3,336,512**	4,513,257
	4,419,408	6,174,608

(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	
	2009	2008
	RMB'000	*RMB'000*
Contracted for	**–**	5,394,118

The balance as at 31 December 2008 related to the acquisition of the interest in Beijing Tianjie, 49% owned by Beijing Danshi, the project company developing the Tiananmen South (Qianmen) project. As disclosed in Note 12(i), the capital commitments in relation to the acquisition of 49% equity interest in Beijing Tianjie from Beijing Danshi have been terminated in 2009.

(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 RMB18,317,000 as at 31 December 2009 (2008: RMB22,313,000). The total amount of mortgages outstanding which are guaranteed by the Company's subsidiaries, including the amount of guarantees with guarantee periods of generally 7 to 17 years mentioned above was RMB3,701,817,000 as at 31 December 2009 (2008: RMB2,959,478,000).

As at 31 December 2009, the Company provided a guarantee to a subsidiary with respect to its bank loan of RMB1,569,660,000 (2008: nil).

25 Commitments and contingent liabilities (continued)

(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 related parties, and corresponding transactions

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

	Note	**2009** **RMB'000**	2008 RMB'000
Beijing Hongyun	*(i)*	**4,414**	4,414
Huayuan	*(ii)*	**–**	30,807
		4,414	35,221

(i) The balances as at 31 December 2009 and 2008 were in connection with certain property units purchased by Beijing Hongyun Co., Ltd. ("Beijing Hongyun"), an investor of Beijing ZhongHongTian Real Estate Co., Ltd. ("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 2009. RMB nil was received from Being Hongyun during the years ended 31 December 2009 and 2008.

(ii) The balances as at 31 December 2008 represented advances to Beijing Huayuan Real Estate Co., Ltd. ("Huayuan") by Beijing Jianhua Real Estate Co., Ltd. ("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 2009, Jianhua advanced RMB10,333,000 to Huayuan (2008: RMB32,680,000) and received repayment of RMB42,246,000 from Huayuan (2008: RMB74,891,000).

26 Material related party transactions (continued)

(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:

	2009	2008
	RMB'000	*RMB'000*
Short-term employee benefits	**34,528**	36,307
Post-employment benefits	**175**	163
Share-based payments	**3,453**	8,523
	38,156	44,993

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, entered into agreements with certain banks in 1998 and 1999 with respect to guarantees for mortgage loans provided to certain buyers of the Group's properties. Redstone Industry provided guarantees amounting to RMB46,835,220 for these buyers as at 31 December 2009 (2008: RMB47,684,000). The guarantee period generally ranged from 2 to 17 years.

(ii) Property purchase contract between Mrs. Pan Zhang Xin Marita and Beijing Redstone Newtown Real Estate Co., Ltd. ("Redstone Newtown")

Tianjin Jingshi Investment Management & Consulting Co., Ltd. ("Tianjin Jingshi"), a company controlled by Mrs. Pan Zhang Xin Marita, and Redstone Newtown, a subsidiary of the Group, entered into a property purchase contract on 28 April 2009, pursuant to which Tianjin Jingshi agreed to purchase a unit in the Commune by the Great Wall project for a consideration of RMB15,300,000, which was settled in 2009.

27 Acquisition of subsidiaries

In 2009, the Group acquired all the equity interests in SOHO Exchange Limited and Bluewater 2 Holding SRL, being the project companies for The Exchange-SOHO project and SOHO Nexus Centre project, respectively (see Note 12(ii) and Note 12(iv)). The assets acquired and liabilities assumed did not constitute a business as defined in HKFRS 3 and, therefore, these acquisitions have been accounted for as assets acquisition. The acquisitions had the following effect on the Group's assets and liabilities on the acquisition dates:

	RMB'000
Property and equipment	23
Deferred tax assets	65,003
Properties under development and completed properties held for sale	4,677,736
Trade and other receivables	64,587
Cash and cash equivalents	185,351
Bank loans	(1,050,000)
Trade and other payables	(79,505)
Net identifiable assets and liabilities	3,863,195
Cash consideration	3,863,195
Cash acquired	(185,351)
Net cash outflow	3,677,844

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.

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

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

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

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

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

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

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

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

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

(d) Impairment for property and equipment

If circumstances indicate that the net book value of a property or equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised to reduce the carrying amount to the recoverable amount in accordance with the accounting policy for impairment of property and equipment as described in Note 1(g)(ii). 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 future income and 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 future income and 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.

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

(e) Valuation of investment property

As described in Note 11(c), investment properties are stated at fair value based on the valuation performed by an independent firm of professional valuers after taking into consideration the market evidence of transaction prices, and where appropriate, the rental income allowing for reversionary income potential.

In determining the fair value, the valuers have based on the market conditions existing at the balance sheet date or where appropriate, a method of valuation which involves, inter alia, certain estimates including market prices, current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, the management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(f) Impairment for loans and receivables

The Group estimates impairment losses for loans and receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the loans and receivables 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 2009

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
HKFRS 3, Business combinations (revised 2008)	1 July 2009
HKAS 27, Consolidated and separate financial statements (amended 2008)	1 July 2009
Amendments to HKAS 39 – Eligible hedged items	1 July 2009
HK (IFRIC) 17, Distributions of non-cash assets to owners	1 July 2009
Improvements to HKFRSs 2008 – Amendments to HKFRS 5 non-current assets held for sale and discontinued operations	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010
Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Additional exemptions for first-time adopters	1 January 2010
Amendments to HKFRS 2, Share-based payment – Group cash-settled share-based payment transactions	1 January 2010
Amendments to HKAS 32, Financial instruments: Presentation – Classification of rights issues	1 February 2010
HK (IFRIC) 19, Extinguishing financial liabilities with equity instruments	1 July 2010
Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards – Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
HKAS 24, Related party disclosures (revised 2009)	1 January 2011
Amendments to HK (IFRIC) 14, HKAS 19 – The limit on a defined benefit assets, minimum funding requirements and their interaction	1 January 2011
HKFRS 9, Financial instruments	1 January 2013

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

30 Ultimate holding company

At 31 December 2009, 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

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in Note 2.

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