



# CHINA AOYUAN PROPERTY GROUP LIMITED

## 中國奧園地產集團股份有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 3883)

### ANNOUNCEMENT OF 2007 ANNUAL RESULTS

#### FINANCIAL HIGHLIGHTS

- Succeeded in listing of the shares of the Company on the Stock Exchange of Hong Kong and raised gross proceeds of HK\$3,913 million through global offering of shares of the Company on 9 October 2007 (“Global Offering”)
- The Group’s land bank has increased by 467% from 0.97 million sq.m. in terms of GFA as at 31 December 2006 to 5.5 million sq.m. as at 31 December 2007 and further increased to 5.81 million sq.m. as at 31 March 2008
- The Group’s total sales has grown by 183% from RMB884 million in 2006 to RMB2,501 million in 2007
- The Group’s net profit has increased by 101% from RMB300 million in 2006 to RMB602 million in 2007, resulted in an increase in the earning per share from RMB34 cents in 2006 to RMB36 cents in 2007
- The Group maintained a net cash position as of 31 December 2007
- Total debt over total assets maintained at 14.4% (2006: 15.1%) as of 31 December 2007
- Recommended a final dividend of RMB5.5 cents per share

The board of directors (the “Board”) of China Aoyuan Property Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2007, as follows:

**CONSOLIDATED INCOME STATEMENT** (To be extracted from draft accounts)

		<b>2007</b>	2006
	<i>NOTES</i>	<i>RMB</i>	<i>RMB</i>
Revenue	4	<b>2,501,396,803</b>	883,732,871
Cost of sales		<b><u>(1,176,985,527)</u></b>	<u>(428,953,936)</u>
Gross profit		<b>1,324,411,276</b>	454,778,935
Other income	5	<b>105,242,869</b>	116,064,966
Change in fair value of investment properties		<b>20,963,802</b>	67,562,674
Recognition of change in fair value of completed properties for sale upon transfer to investment properties		<b>55,142,196</b>	—
Selling and distribution costs		<b>(71,101,989)</b>	(14,009,604)
Administrative expenses		<b>(148,793,780)</b>	(52,530,118)
Change in fair value of embedded derivatives component of convertible notes		<b>64,289,406</b>	—
Other expenses		<b>(29,056,791)</b>	(41,416,523)
Loss on redemption of convertible notes		<b>(86,266,068)</b>	—
Finance costs	6	<b>(30,615,722)</b>	(2,113,508)
Share of results of jointly controlled entities		<b><u>(232,157)</u></b>	<u>(1,629,952)</u>
Profit before taxation	7	<b>1,203,983,042</b>	526,706,870
Income tax expense	8	<b><u>(601,612,413)</u></b>	<u>(227,403,097)</u>
Profit for the year		<b><u>602,370,629</u></b>	<u>299,303,773</u>
Profit attributable to:			
Equity holders of the Company		<b>602,401,155</b>	299,540,283
Minority interests		<b><u>(30,526)</u></b>	<u>(236,510)</u>
		<b><u>602,370,629</u></b>	<u>299,303,773</u>
Earnings per share (cents)			
Basic	9	<b><u>36</u></b>	<u>34</u>
Diluted	9	<b><u>30</u></b>	<u>34</u>

**CONSOLIDATED BALANCE SHEET** (To be extracted from draft accounts)

	<i>NOTES</i>	<b>2007</b> <b>RMB</b>	2006 <b>RMB</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>63,969,284</b>	40,846,610
Prepaid lease payments		<b>24,926,852</b>	35,053,265
Investment properties		<b>353,750,000</b>	158,123,500
Available-for-sale investments		—	550,000
Interests in jointly controlled entities		—	29,731,468
Goodwill		—	—
Deferred taxation assets		<b>5,939,196</b>	11,772,318
		<b><u>448,585,332</u></b>	<u>276,077,161</u>
<b>Current assets</b>			
Inventories		<b>12,017</b>	87,678
Properties for sale		<b>2,593,118,772</b>	1,036,175,317
Other property interests		<b>86,952,073</b>	86,933,922
Trade and other receivables	<i>11</i>	<b>2,299,321,854</b>	267,380,051
Prepaid lease payments		<b>6,274,821</b>	6,155,632
Amounts due from related parties		—	111,543,854
Amounts due from jointly controlled entities		—	54,325,594
Restricted bank deposits		<b>148,246,327</b>	41,529,240
Bank balances and cash		<b>2,658,200,677</b>	308,871,732
		<b><u>7,792,126,541</u></b>	<u>1,913,003,020</u>
<b>Current liabilities</b>			
Trade and other payables	<i>12</i>	<b>823,913,201</b>	292,400,669
Sales deposits		<b>234,889,812</b>	147,463,945
Amounts due to related parties		—	41,042,540
Taxation payable		<b>641,366,552</b>	221,063,368
Advance payments of convertible notes		—	235,099,800
Derivative financial instruments		<b>80,050,963</b>	—
Secured bank loans		<b>74,912,000</b>	216,873,000
		<b><u>1,855,132,528</u></b>	<u>1,153,943,322</u>
Net current assets		<b><u>5,936,994,013</u></b>	<u>759,059,698</u>
Total assets less current liabilities		<b><u>6,385,579,345</u></b>	<u>1,035,136,859</u>

	<b>2007</b>	2006
	<b>RMB</b>	<b>RMB</b>
Non-current liabilities		
Secured bank loans	<b>808,900,000</b>	114,000,000
Deferred taxation liabilities	<b>226,173,555</b>	92,858,832
Convertible notes	<b>306,399,992</b>	—
	<b><u>1,341,473,547</u></b>	<u>206,858,832</u>
Net assets	<b><u>5,044,105,798</u></b>	<u>828,278,027</u>
Capital and reserves		
Share capital	<b>21,837,988</b>	81,143
Reserves	<b>5,022,267,810</b>	827,819,680
Equity attributable to equity holders of the Company	<b>5,044,105,798</b>	827,900,823
Minority interests	<u>—</u>	<u>377,204</u>
Total equity	<b><u>5,044,105,798</u></b>	<u>828,278,027</u>

## 1. GENERAL INFORMATION

The Company was incorporated on 6 March 2007 as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) from 9 October 2007. The Company’s ultimate holding company is Ace Rise Profits Limited, incorporated in the British Virgin Islands. The address of the registered office and the principal place of business of the Company are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-111, Cayman Islands and Nanguo Aoyuan, Hanxi Road, Zhong Cun Town, Panyu, the People’s Republic of China (the “PRC”), respectively.

## 2. BASIS OF PREPARATION

Pursuant to a series of group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) in preparation for listing of the Company’s shares on the Stock Exchange, the Company issued shares in exchange for the entire issued share capital of Add Hero Holdings Limited and thereby became the holding company of the Group on 6 September 2007. Details of the Group Reorganisation are set out in the prospectus dated 21 September 2007 issued by the Company.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2007 and 2006 have been prepared as if the Company has always been the holding company of the Group using the principles of merger accounting. On this basis, the results of the Group for the

year ended 31 December 2007 and 2006 includes the Company and its subsidiaries with effect from 1 January 2006 or since their respective date of incorporation or establishment where this is a shorter period.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company.

### 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance of the Laws of Hong Kong.

The Group has applied all the standards, amendments and interpretations (“IFRS”) issued by the International Accounting Standards Boards, which are effective for the Group’s financial year beginning 1 January 2007.

The Group has not early applied the following new and revised standards or interpretations that have been issued at the date of this announcement but are not yet effective:

IAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
IAS 23 (Revised)	Borrowing Costs <sup>1</sup>
IAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>5</sup>
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
IFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
IFRS 3 (Revised)	Business Combinations <sup>5</sup>
IFRS 8	Operating Segments <sup>1</sup>
IFRIC 11	IFRS 2: Group and Treasury Share Transactions <sup>2</sup>
IFRIC 12	Service Concession Arrangements <sup>3</sup>
IFRIC 13	Customer Loyalty Programmes <sup>4</sup>
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2009

The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and financial position of the Group except for the adoption of IFRS 3 (Revised) and IAS 27 (Revised). The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment on changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

#### 4. SEGMENT INFORMATION

The Group is principally engaged in the property development and property investment in the PRC. These divisions are the basis on which the Group reports its primary segment information.

##### Revenue and results

	Year ended 31 December 2007			
	Property development RMB	Property investment RMB	Others RMB	Total RMB
Revenue	<u>2,488,269,326</u>	<u>8,469,163</u>	<u>4,658,314</u>	<u>2,501,396,803</u>
Segment results	<u>1,214,820,863</u>	<u>76,967,910</u>	<u>562,831</u>	1,292,351,604
Other income				105,242,869
Unallocated corporate expenses				(140,786,890)
Change in fair value of embedded derivatives component of convertible notes				64,289,406
Loss on redemption of convertible notes				(86,266,068)
Finance costs				(30,615,722)
Share of results of jointly controlled entities	(232,157)	—	—	(232,157)
Profit before taxation				1,203,983,042
Income tax expense ( <i>Note 8</i> )				<u>(601,612,413)</u>
Profit for the year				<u>602,370,629</u>

*Note:* During the year ended 31 December 2007, revenue and segment results amounting to approximately RMB1,435 million and approximately RMB807 million respectively included in the property development segment were derived from corporate bulk sales.

## Revenue and results

	Year ended 31 December 2006			
	Property development	Property investment	Others	Total
	RMB	RMB	RMB	RMB
Revenue	<u>876,763,450</u>	<u>2,264,935</u>	<u>4,704,486</u>	<u>883,732,871</u>
Segment results	<u>408,059,448</u>	<u>31,472,364</u>	<u>(1,102,156)</u>	438,429,656
Gain on disposal of property, plant and equipment and prepaid lease payments	—	—	98,765,878	98,765,878
Unallocated other income				17,299,088
Unallocated corporate expenses				(24,044,292)
Finance costs				(2,113,508)
Share of results of jointly controlled entities	(1,629,952)	—	—	<u>(1,629,952)</u>
Profit before taxation				526,706,870
Income tax expense ( <i>Note 8</i> )				<u>(227,403,097)</u>
Profit for the year				<u>299,303,773</u>

## 5. OTHER INCOME

	2007	2006
	RMB	RMB
Other income comprises of:		
Bank interest income from over-subscription monies	<b>78,318,339</b>	—
Bank interest income	<b>22,965,274</b>	1,119,908
Gain on disposal of subsidiaries	—	3,146,219
Gain on disposal of property, plant and equipment and prepaid lease payments	—	98,765,878
Discount arising on acquisition of additional interest in a subsidiary	<b>101,679</b>	3,233,330
Net foreign exchange gain	—	5,534,555
Others	<u><b>3,857,577</b></u>	<u>4,265,076</u>
Total	<u><b>105,242,869</b></u>	<u>116,064,966</u>

## 6. FINANCE COSTS

	2007 <i>RMB</i>	2006 <i>RMB</i>
Interest on bank loans wholly repayable within five years	40,075,577	27,034,167
Interest on convertible notes	108,074,722	—
Less: Amount capitalised in properties for sales under development	<u>(117,534,577)</u>	<u>(24,920,659)</u>
	<u>30,615,722</u>	<u>2,113,508</u>

## 7. PROFIT BEFORE TAXATION

	2007 <i>RMB</i>	2006 <i>RMB</i>
Profit before taxation has been arrived at after charging (crediting):		
Staff costs including directors' emoluments	48,112,072	10,880,986
Retirement benefit scheme contributions	<u>808,085</u>	<u>477,012</u>
Total staff costs	48,920,157	11,357,998
Less: Amount capitalised in properties for sales under development	<u>(5,754,671)</u>	<u>(627,357)</u>
	43,165,486	10,730,641
Amortisation of prepaid lease payments	7,059,925	236,404
Auditors' remuneration	3,000,000	176,000
Depreciation of property, plant and equipment	3,967,135	10,220,319
Gain on disposal of property, plant and equipment	(235,294)	—
Impairment of goodwill included in administrative expenses	—	7,434,722
Net foreign exchange loss	49,207,275	—
Rental expenses in respect of rented premises under operating leases	6,208,172	434,289
Rental income in respect of investment properties under operating leases, less outgoings of RMB839,567 (2006: RMB170,705)	<u>(7,629,596)</u>	<u>(2,094,230)</u>

## 8. INCOME TAX EXPENSE

**2007**                      2006  
**RMB**                        **RMB**

Income tax expense recognised comprises of:

Enterprise Income Tax in the PRC for the year	<b>130,043,343</b>	89,639,417
Deferred taxation		
— Current year	<b>139,030,632</b>	57,549,367
— Attributable to change in tax rate	<b>(12,461,257)</b>	—
Land Appreciation Tax	<b>344,999,695</b>	<u>80,214,313</u>
Income tax expense for the year	<b><u>601,612,413</u></b>	<u>227,403,097</u>

The Group's PRC Enterprise Income Tax is calculated at 33% of the estimated assessable profit for the year. 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 deducted expenditure including cost of land use rights and all property development expenditures.

Pursuant to the new PRC Enterprise Income Tax Law promulgated on 16 March 2007, the enterprise income tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. The effect of this change has been reflected in the calculation of deferred taxation at 31 December 2007.

## 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

### Earnings

**2007**                      2006  
**RMB**                        **RMB**

Earnings for the purposes of basic earnings per share, being profit for the year attributable to equity holders of the Company	<b>602,401,155</b>	299,540,283
Effect of dilutive potential ordinary shares:		
Interest on convertible notes charged to consolidated income statement	<b>16,436,904</b>	—
Change in fair value of embedded derivatives component of convertible notes	<b>(66,979,962)</b>	—
Exchange difference	<b>(19,454,944)</b>	—
Earnings for the purpose of diluted earnings per share	<b><u>532,403,153</u></b>	<u>299,540,283</u>

### Number of shares

**2007**                      2006

Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>1,671,164,384</b>	881,589,041
Effect of dilutive potential ordinary shares:		
Convertible notes	<b><u>80,177,450</u></b>	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b><u>1,751,341,834</u></b>	<u>881,589,041</u>

The diluted earnings per share for the convertible notes have not included the effect of potential ordinary shares outstanding for the portion of convertible notes which have been redeemed during the year as these are anti-dilutive during the year.

No diluted earnings per share for share options has been presented because the exercise price of the Company's option was higher than the average market price of shares for 2007.

## 10. DIVIDENDS

	<b>2007</b>	2006
	<b>RMB</b>	RMB
Final dividend proposed after the balance sheet date of RMB5.5 cents per share (2006: RMB nil per share)	<u><b>123,887,500</b></u>	<u>—</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date and is subject to approval by the Company's shareholders in the forthcoming annual general meeting.

## 11. TRADE AND OTHER RECEIVABLES

	<b>2007</b>	2006
	<b>RMB</b>	RMB
Trade receivables	<b>1,371,507,859</b>	96,207,762
Receivable arising from disposal of property, plant and equipment	<b>58,516,380</b>	58,516,380
Receivable arising from disposal of investment properties	<b>80,696,880</b>	80,696,880
Other receivables	<b>141,824,328</b>	4,652,768
Advances to suppliers	<b>381,855,226</b>	19,404,658
Deposits for land use rights	<b>259,773,080</b>	—
Prepayments and deposits	<u><b>5,148,101</b></u>	<u>7,901,603</u>
	<u><b>2,299,321,854</b></u>	<u>267,380,051</u>

The following is an aged analysis of trade receivables at the balance sheet date:

	<b>2007</b>	2006
	<b>RMB</b>	RMB
Age		
0 to 60 days	<b>1,038,350,874</b>	87,594,718
61 to 180 days	<b>263,963,713</b>	2,310,343
181 to 365 days	<b>2,442,425</b>	3,730,635
1–2 years	<b>66,200,670</b>	2,429,234
2–3 years	<b>550,177</b>	16,400
Over 3 years	<u>—</u>	<u>126,432</u>
	<u><b>1,371,507,859</b></u>	<u>96,207,762</u>

Trade receivable mainly represents the receivable from banks for mortgage sales of properties and receivable from corporate sales customers. Normally the average credit period on sales of properties is 60 days. For the corporate sales customers, the average credit period extends to 180 days or one year.

## 12. TRADE AND OTHER PAYABLES

	<b>2007</b>	2006
	<b>RMB</b>	<b>RMB</b>
Trade payables	<b>500,587,688</b>	200,480,288
Other payables	<b>211,137,243</b>	59,406,310
Other taxes payable	<b>112,188,270</b>	<u>32,514,071</u>
	<b><u>823,913,201</u></b>	<u>292,400,669</u>

The following is an aged analysis of trade payables at the balance sheet date:

	<b>2007</b>	2006
	<b>RMB</b>	<b>RMB</b>
Age:		
0 to 60 days	<b>141,417,690</b>	53,563,627
61 to 180 days	<b>195,530,328</b>	13,528,328
181 to 365 days	<b>48,353,400</b>	3,382,082
1–2 years	<b>48,534,537</b>	66,567,810
2–3 years	<b>27,537,449</b>	37,806,356
Over 3 years	<b>39,214,284</b>	<u>25,632,085</u>
	<b><u>500,587,688</u></b>	<u>200,480,288</u>

## 13. PRESENTATION OF LAND APPRECIATION TAX AND RECLASSIFICATION OF COMPARATIVE FIGURES

Within the comparative figures stated in the consolidated financial statements, land appreciation tax of RMB80,241,313 previously included in cost of sales for the year ended 31 December 2006 was reclassified as income tax expenses in the consolidated income statement, and provision for land appreciation tax of RMB107,416,441 previously included in other payable as at 31 December 2006 was reclassified as income tax payable in the consolidated balance sheet. Land appreciation tax of RMB344,999,695 for the year ended 31 December 2007, and provision for land appreciation tax of RMB446,641,644 as at 31 December 2007 were classified as income tax expense and income tax payable respectively.

The above reclassification are made so as to conform to current year presentation, as the Directors are of the view that it would be more appropriate to reflect the land appreciation tax as income tax expense in the current year and the outstanding provision as income tax payable, after a reassessment of the nature of the land appreciation tax and a study of the market practices.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **China Property Market**

In 2007, the Chinese economy remained robust and the property industry experienced a fast growth. The major contributing factors of the strong growth in the real estate market included increased demand stemmed from investments from the rising middle class and customers' desire to purchase property with better quality. As a result, average housing price has increased substantially during the period.

For 2008, there are several fundamental factors underpinning the development of the real estate market in China. First, it is the continual growth of the Chinese economy as a whole. Second, real estate demand increases due to the acceleration of the urbanization process. Finally, demands generated by consumers' desire to improve their living standards and the increasing investment-driven demands. The Chinese Government has implemented a series of macro economic control policies to tackle price speculation in the real estate market in 2007. These policies were aimed to increase effective supply, adjust the housing supply structure, constrain speculative demands and solve the housing needs of the lower income families. The implementation of these policies aims to have a more balanced supply and demand in the property market; restrains the market speculators, and further consolidates the real estate industry.

Facing the challenges in a fast growing market and tightening government policies, the Group believes that only those market players with strong brand name, operational expertise and financial strengths can survive and prosper in the long run. As a leading real estate developer, the Group is confident that it is well positioned to take advantage of the current market condition and will explore strategic opportunities in industry consolidation.

### **BUSINESS REVIEW**

The Group has successfully implemented its development strategy nationwide in 2007. We have established our foothold in the first and second tier cities of the northern region and southwest region including Chongqing, Shenyang, Yulin and Jiangxi. We believe geographic diversification will enhance our long term competitive strength.

During 2007, we have achieved a total of approximately 1,202,722 sq.m. new construction area and approximately 453,460 sq.m. completed area representing an increase of 640% and 128% respectively as compared to 2006. We have also achieved a total sales of approximately 382,285 sq.m. with sales revenue of approximately RMB2,488 million. Details are as follows:

<b>Projects</b>	<b>Sales Area</b> <i>sq.m.</i>	<b>Sales Revenue</b> <b>Amount</b> <i>RMB million</i>
Fogang Aoyuan	77,660	390.7
Yu Zhong Ming Jun	13,555	42.0
Guo Ao Investment Development Center	93,866	648.7
Nansha Aoyuan	58,210	426.8
Aoyuan Hai Jing Cheng	8,749	66.0
Nanguo Aoyuan	31,891	311.2
Panyu Aoyuan	87,126	582.9
Guangzhou Aoyuan	455	6.0
Jiangxi Aoyuan	<u>10,773</u>	<u>13.9</u>
<b>Total</b>	<u><u>382,285</u></u>	<u><u>2,488.2</u></u>

In 2007, the Group continued to prosper due to our strategy of sustained growth and financial prudence. We focused on development projects with low market risks and high and fast returns. We continued our strategic acquisition of land bank reserves to ensure consistent supply of development opportunities in the future. In 2007, we acquired additional land bank with GFA of approximately 4.3 million sq.m..

## **FUTURE OUTLOOK**

In 2008, the Group will further implement the development strategy nationwide. We will place more emphasis on developing projects at the city center in our target cities. In the same time we will continue to build on our long established successful strategy of investing properties in suburbs. We will accelerate the development pace and launch more innovative products to meet the changing market needs.

In 2008, the Group plans to commence the development of approximately 1.865 million sq.m. new construction area and aims to complete approximately 1.125 million sq.m. by the end of the year.

<b>Projects</b>	<b>Location</b>	<b>Aggregate GFA <i>sq.m.</i></b>	<b>New Construction Area in 2008 <i>sq.m.</i></b>	<b>Newly Completed Area in 2008 <i>sq.m.</i></b>
Fogang Aoyuan	Qingyuan	1,432,681	93,610	93,610
Jiangxi Aoyuan	Guangzhou	588,107	20,000	35,799
Yulin Aoyuan Cannes	Yulin	963,421	80,000	50,000
Jiang Wan Yu Jing	Chongqing	599,967	595,176	300,000
Aoyuan Hai Jing Cheng	Guangzhou	235,869	214,726	225,173
Nansha Aoyuan	Guangzhou	471,193	92,646	170,114
Nanguo Aoyuan	Guangzhou	1,097,628	36,420	110,745
Panyu Cannes	Guangzhou	156,607	156,607	—
Panyu Commercial Properties	Guangzhou	244,838	244,838	—
Shenyang Aoyuan	Shenyang	330,000	260,000	140,000
Panyu Aoyuan	Guangzhou	<u>344,743</u>	<u>70,518</u>	<u>—</u>
<b>Total</b>		<u><u>6,465,054</u></u>	<u><u>1,864,541</u></u>	<u><u>1,125,441</u></u>

## **MILESTONE OF CORPORATE DEVELOPMENT IN 2007**

Successful listing the shares of the company on the Stock Exchange and raised gross proceeds of HK\$3,913 million.

## **LAND BANK**

We believe our land reserve had been acquired at relatively low cost compared to similar land in more developed urban centers. This is paramount to our long-term growth and sustainability. As of 31 December 2007, we had an aggregate of approximately 5.5 million sq.m. of GFA of which approximately 205,500 sq.m. is in the completed projects, approximately 987,900 sq.m. in the under development stage and approximately 4.3 million sq.m. in land held for future development.

## **ACQUISITION/INCREASE IN OUR EQUITY INTERESTS IN PROJECTS**

For the year ended 31 December 2007, the Group increased its land bank from land auctions, acquisition of interests in project and purchasing additional equity interests in existing projects companies.

- April — acquisition of Fogang Aoyuan project located in Fogang, Qingyuan City, Guangdong
- May — acquisition of Yu Zhong Ming Jun and Jiang Wan Yu Jing located in Chongqing
- June — acquisition of remaining interests in existing Guo Ao Investment Development Center located in the Nansha Economic Development Zone, Guangzhou City, Guangdong

*Newly acquired projects for the year ended 31 December 2007*

<b>Projects</b>	<b>City</b>	<b>Site area</b> <i>sq.m.</i>	<b>GFA</b> <i>sq.m.</i>
Fogang Aoyuan	Qingyuan	427,033	1,432,681
Jiang Wan Yu Jing	Chongqing	138,400	599,967
Yulin Aoyuan	Yulin	55,987	342,066
Yulin Aoyuan Cannes	Yulin	157,728	963,421
Aoyuan Hai Jing Cheng	Guangzhou	64,778	235,869
Shenyang Aoyuan	Shenyang	327,969	330,000
Panyu Cannes	Guangzhou	78,001	156,607
Panyu Commercial Properties	Guangzhou	64,861	244,838
Total		1,314,757	4,305,449

*Projected delivered as scheduled*

<b>Projects</b>	<b>City</b>	<b>Products</b>	<b>Aggregate</b> <b>GFA</b> <i>sq.m.</i>	<b>Sold areas</b> <b>for</b> <b>the year</b> <i>sq.m.</i>
Nanguo Aoyuan	Guangzhou	Residential units and shops	1,097,628	31,891
Yu Zhong Ming Jun	Chongqing	Residential units and shops	109,712	13,555
Guangzhou Aoyuan	Guangzhou	Residential units and shops	288,270	455
Panyu Aoyuan	Guangzhou	Residential units and shops	344,743	87,126
Guo Ao Investment Development Center	Guangzhou	Residential units and offices	126,016	93,866
Nansha Aoyuan	Guangzhou	Residential units	471,193	58,210
Fogang Aoyuan	Qingyuan	Residential units and shops	1,432,681	77,660
Jiangxi Aoyuan	Ganzhou	Residential units and shops	588,107	10,773
Aoyuan Hai Jing Cheng	Guangzhou	Residential units and shops	235,869	8,749
Total			4,694,219	382,285

## **FINANCIAL REVIEW**

### **Revenue**

The total revenue of the Group for the year ended 31 December 2007 was approximately RMB2,501 million, representing an increase of approximately RMB1,617 million or 183% over approximately RMB884 million in 2006. It was mainly attributable to the increase in GFA sold and delivered and in the average selling price. The GFA delivered increased from approximately 158,620 sq.m. in 2006 to

approximately 382,285 sq.m. in 2007. The average selling price of the properties delivered increased from approximately RMB5,527 per sq.m. to approximately RMB6,509 per sq.m., being an increase of 18%.

The following table shows the product mix which the Group achieved for the year ended 31 December 2007.

	<b>Aggregate GFA sq.m.</b>	<b>Amount RMB</b>
Commercial properties	110,728	788,166,068
Apartments	181,823	1,210,786,899
Villas	32,147	178,121,354
Townhouses	<u>57,587</u>	<u>311,195,005</u>
	<u><u>382,285</u></u>	<u><u>2,488,269,326</u></u>

#### **Cost of sales**

Cost of sales in 2007 increased by 174% from approximately RMB429 million to approximately RMB1,177 million, being in line with the significant growth in revenue.

#### **Gross Profit and Margin**

Gross profit increased by 191% from approximately RMB455 million in 2006 to approximately RMB1,324 million in 2007 while the margin increased from 51% in 2006 to 53% in 2007. It was due to the fact that the majority portion of revenue in 2007 was derived from the properties sold in Nansha project which had a comparatively low land cost.

#### **Other operating income**

Other operating income for the year ended 2007 included bank interest of approximately RMB78 million derived from over-subscription monies during the Group's Global Offering in October 2007 while other operating income for 2006 mainly included a gain on disposal of property, plant and equipment of RMB99 million.

#### **Selling and Administrative expenses**

Selling and administrative expenses increased from approximately RMB67 million for the year 2006 to approximately RMB220 million this year, representing an increase of 228%. The increase was mainly due to those expenses and fees associated with the Group's Global Offering which cannot be capitalised in 2007, together with the increase in wages of staff as a result of the Group's expansion.

## **Financial Position**

Shareholders' fund attributable to equity holders of the Company increased by 5 times from approximately RMB828 million as at 31 December 2006 to approximately RMB5,044 million as at 31 December 2007. The increase was mainly due to (1) the issuance of shares for acquisition of subsidiary; (2) the proceeds raised through the Global Offering in October 2007 and (3) the net profit retained by the Group for 2007.

Total assets amounted to approximately RMB8,241 million as at 31 December 2007 (2006: approximately RMB2,189 million) and total liabilities (including minority interests) equaled approximately RMB3,196 million (2006: approximately RMB1,361 million). The increase was mainly due to the cash proceeds received from the Global Offering.

Current ratio was substantially improved from 1.7 in 2006 to 4.2 in 2007.

## **Financial Resources and Liquidity**

The Group derived its sources of fund primarily from income generated from business operations, bank borrowings, cash proceeds raised from the Global Offering, which were used to finance its business operations and investment in development projects.

As at 31 December 2007, the Group's bank balance and cash amounted to approximately RMB2,658 million (2006: approximately RMB309 million) with the total borrowings of approximately RMB1,190 million (2006: approximately RMB566 million). As at 31 December 2007, we were in a net cash position.

## **Commitment**

As at 31 December 2007, the Group has approximately RMB2,783 million (2006: approximately RMB1,019 million) capital projects contracted but not provided for. In addition, there were other commitments of approximately RMB931 million which related to the consideration for acquisition of two pieces of land.

## **Foreign Currency risks**

Most of the Group's revenues and operating costs were denominated in RMB. As the proceeds from the Global Offering were received in Hong Kong Dollars, the Group is exposed to foreign exchange risks. For 2007, the Group has recorded net exchange loss of approximately RMB49 million. The Group's operating cash flow or liquidity is not subject to any exchange rate fluctuations. The Group did not enter into any foreign exchange hedging arrangements as at 31 December 2007.

## Financial Guarantees

As at 31 December 2007, the Group provided guarantees to the banks for:

	<b>2007</b>	<b>2006</b>
	<b>RMB</b>	<b>RMB</b>
Guarantees given to banks in connection with facilities granted to third parties	<u><b>333,475,912</b></u>	<u><b>86,032,000</b></u>

The Group acted as guarantor to the mortgage bank loans granted to purchasers of the Group's properties and agreed to repurchase the properties upon the purchasers default the repayment of bank loans.

## Pledge of assets

As at 31 December 2007, the Group pledged its building, property for development, properties under development, completed properties for sale and investment properties of approximately RMB306 million (2006: approximately RMB363 million) to various banks to secure project loans and general banking facilities granted to the Group.

## Share Option

As at 31 December 2007, the Group employed a total of 431 employees. The Group has adopted a performance based rewarding system to motivate its staff and such system was reviewed on a regular basis. In addition to a basic salary, year-end bonuses will be offered to those staff with outstanding performance. Moreover, a share option scheme has been adopted in September 2007 to retain talents who made significant contribution to the Group. As at 31 December 2007, share option in respect of a total of 11,929,000 shares of the Company was granted to certain Directors and employees.

## Use of proceeds from the Global Offering

The Company's shares were listed on the Stock Exchange on 9 October 2007, and the Group has raised net proceeds of approximately HK\$3,749 million from the Global Offering. The Company had applied approximately HK\$743 million for the partial redemption of convertible notes, approximately HK\$838 million for development of existing projects and approximately HK\$465 million for land acquisition, which is in compliance with the intended use of proceeds as disclosed on page 186 of the Company's prospectus dated 21 September 2007. As at 31 December 2007, a balance of approximately HK\$1,703 million remained as bank deposits.

## CORPORATE GOVERNANCE

The Group is committed to provide transparency and accountability to our shareholders. The Company has adopted all the code provisions as set out in the Code on Corporate Governance Practices ("the Code") in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of

Hong Kong Limited as its own code on corporate governance practices and the Company has complied with all provisions of the Code during the period from the listing date of the Company to 31 December 2007, except the only deviation listed below:

### **Code provision A.2.1**

The code provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Guo Zi Wen acts as the chairman and chief executive officer of the Company. He is responsible for effective running of the board and formulating business strategies. He also provides leadership for effective running of the Company's business and implementing the policies devised by the board. The board believes that Mr. Guo Zi Wen in his dual capacity as the chairman and chief executive officer of the Company can provide strong and consistent leadership for the development of the Group.

### *Audit Committee*

The audit committee was established on 13 September 2007 in accordance with requirements of the Listing Rules of the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee meets whenever deem necessary with the Company's external auditors to discuss the audit process and accounting issues. Their written terms of reference are in line with the Code provisions. The audit committee consists of three independent non-executive Directors, Mr. Ma Kwai Yuen, Mr. Song Xian Zhong and Mr. Tsui King Fai.

The annual results have been reviewed by the audit committee.

### *Nomination Committee*

The nomination committee, formed on 13 September 2007, is primarily responsible for considering and recommending to the Board suitable qualified persons to become the member of the Board and is also responsible for reviewing the structure, size and composition of the Board on a regular basis and as required. Members of the nomination committee comprise Mr. Guo Zi Wen, Mr. Leung Ping Chung, Hermann, Mr. Ma Kwai Yuen, Mr. Song Xian Zhong and Mr. Tsui King Fai.

### *Remuneration Committee*

The remuneration committee, formed on 13 September 2007, is responsible for making recommendations in respect of the remuneration and other benefits of the directors and senior management. The remuneration of all Directors and senior management is subject to regular monitoring by the remuneration committee to ensure that level of their remuneration and compensation is reasonable. Their written terms of reference are in line with the Code provisions. Members of the Remuneration Committee comprise Mr. Leung Ping Chung, Hermann, Mr. Tsui King Fai and Mr. Ma Kwai Yuen.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code since the date on which the Company’s shares were listed on the main board of the Stock Exchange.

## **PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities since the date on which the Company’s shares were listed on the main board of the Stock Exchange.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and do the best of the knowledge of its Directors, this is confirmed that the Company has maintained during the year under review the amount of public float as required under the Listing Rules.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 5 June 2008 to 10 June 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend to be approved at the 2008 Annual General Meeting (the “2008 AGM”) and the right to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on 4 June 2008.

## **ANNUAL GENERAL MEETING**

The 2008 AGM of the Company will be held on 10 June 2008 and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

## **APPRECIATION**

On behalf of the board, I would like to take this opportunity to express my sincere gratitude to our shareholders, investors, business partners and customers for their support and confidence. I would also like to express my thankfulness to our directors and all our staff for their contribution and commitment in making the Company a more prosperous and fruitful future.

## **BOARD OF DIRECTORS**

As at the date of this announcement, Mr. Guo Ziwen, Mr. Guo Zining, Mr. Zheng Jian Jun and Mr. Hu Da Wei are the executive directors of the Company; Mr. Paul Steven Wolansky and Mr. Leung Ping Chung, Hermann are the non-executive directors of the Company (Mr. Leung Ping Chung, Hermann is also the alternate director of Mr. Paul Steven Wolansky); Mr. Song Xian Zhong, Mr. Ma Kwai Yuen and Mr. Tsui King Fai are the independent non-executive directors of the Company.

By order of the Board  
**China Aoyuan Property Group Limited**  
**Guo Zi Wen**  
*Chairman*

Hong Kong, 15 April 2008