

19 March 2009

## CHINA REAL ESTATE OPPORTUNITIES PLC

### FINAL RESULTS FOR THE YEAR TO 31 DECEMBER 2008

China Real Estate Opportunities plc (“CREO” or the “Company”), an AIM-listed company established to acquire investment and development properties in China, today announces its final results for the year to 31 December 2008.

#### Highlights

- Period end independent valuations show an aggregate gross value for the portfolio in excess of £1,022 million at 31 December 2008, an increase of over 61 per cent year on year.
- Diluted EPRA net asset value per share of £13.24, which represents an increase of 59 per cent year on year and 36 per cent since 30 June 2008.
- Valuations of investment property and properties under development, after capitalised costs, increased by 6 per cent year on year, reaffirming the strength and continued growth of the CREO property portfolio.
- Gross rental income increased by 23 per cent year on year while average occupancy in the CREO portfolio was 92 per cent.

Ray Horney, Chairman of CREO, commented:

*“The Board is pleased with the robust performance by the Company across its portfolio despite external economic challenges which will undoubtedly continue throughout 2009. The CREO portfolio is well rented, whilst finance costs are well controlled and cash is being tightly managed to secure future working capital needs. We face the future with cautious optimism.”*

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## CHAIRMAN'S STATEMENT

I am pleased to report on the progress of your Company for the 12 months to 31 December 2008. This has been a period of increasing uncertainty as the global financial crisis deepened throughout the year and the economic downturn ensued. Despite this, your Company has delivered a robust performance.

For the year ended 31 December 2008, European Public Real Estate Association ("EPRA") net asset value per share was £13.24, which represents an increase of 59 per cent year on year and 36 per cent since 30 June 2008. Even after stripping out the effects of the currency uplift, this result compares very favourably to CREO's peers who have assets situated in Western economies, demonstrating both the underlying strengths in the Chinese economy and of the CREO portfolio in particular.

At 31 December 2008 exchange rates, the aggregate gross value of the portfolio was £1,022 million (2007: £635 million), an increase of 61 per cent year on year and 34 per cent since 30 June 2008, benefiting significantly from the appreciation of the Chinese Yuan (CNY) during the financial year. After allowing for capitalised costs, the CREO investment properties and properties under development saw a valuation increase of 6 per cent for the twelve months to 31 December 2008 and a slight decrease of 2 per cent for the six months to 31 December 2008, highlighting the underlying strength and continued growth of the property portfolio in an increasingly challenging marketplace.

The core strategy of CREO is to ensure that the Company's assets are positioned to reflect customer demand, to maximise rental income and to continue to grow in the longer term. This strategy is being achieved through active asset management including enhancement of tenant mix, configuration and design improvements and refurbishment programmes across the investment portfolio. Fundamentals such as an average occupancy level of 92 per cent across the portfolio of investment properties as well as a diverse sector tenant mix highlight the successful execution of the strategy.

In this regard I am pleased to report a 23 per cent increase in gross rental income to £26 million on CREO's investment portfolio for the year to 31 December from annualised gross rental income of £21 million in the prior year. This increase reflects lettings and rent renewals at increased levels of the investment portfolio in the period and the highly reversionary nature of the China property market. The average CREO lease length within the portfolio is just over 2 years, reflecting the typical three year rollover on leases in the Chinese market.

As at 31 December 2008, bank borrowings amounted to £344 million (31 December 2007: £247 million) resulting in gearing of 45 per cent on the investment portfolio and 36 per cent on the total portfolio. The majority of CREO's debt facilities are denominated in US dollars which has appreciated sharply against sterling, hence the net increase in debt in sterling terms at year end. No new or additional debt facilities have been incurred. The earliest debt maturity date is April 2010, with a weighted average maturity of 1.8 years for all debt arrangements. Despite the turmoil in the world banking sector, CREO is well positioned with a low loan to value of 45% and no immediate facility renewals. Nonetheless, cash to fund working capital is the business's key priority and the Board has reviewed the cash requirements for the business and believes that there are adequate resources to fulfill the needs of the business for the foreseeable future.

Net assets for the period increased to £485 million, compared to £331 million in the prior year and EPRA net assets at 31 December 2008 were £660 million, up 51 per cent from £438 million, due to the valuation uplift and foreign exchange gain noted previously.

I draw shareholders' attention to the commentary on the Chinese economy from the Company's Investment Manager, which states that the Chinese economy will not be immune to the downturn in the global economy. However, the Chinese economy is expected to comfortably outperform most Western economies, with a forecast growth rate of 6.8 per cent of Gross Domestic Product (GDP)<sup>(1)</sup> after taking into account a sharp slowdown in recent months. The Chinese government has moved swiftly to address the downturn, with a combination of fiscal and monetary measures which are broadly expected to benefit the real estate sector.

Evidencing the Board's continued belief in the relative strength of the Chinese economy, in November CREO announced it had acquired a 7.2 per cent stake in RREEF China Commercial Trust ("RREEF CCT"), a Hong Kong listed Real Estate Investment Trust. RREEF CCT currently owns an international well-let Grade A office and retail complex in the Chaoyang district of Beijing of approximately 130,000 square metres. The Trust Manager has indicated that it remains on track to provide for a year-end distribution which will reflect a 14 per cent per annum return on CREO's investment.

#### *Share Buyback Programme*

Owing to significant stock market volatility and the subsequent impact on the CREO share price in the latter part of the year, the Board decided that as the shares were at such an enormous discount to their asset value, it was in the best interests of the Company and its shareholders to engage in a share buyback programme so as to provide an additional source of liquidity in the Company's shares and enhance ongoing net asset value per share. As at 31 December 2008, the Company had repurchased a total of 3,500,000 shares, which were cancelled, reducing the total number of shares in issue to 47,703,038. These repurchases enhanced EPRA NAV per share by 7 per cent. Subsequent to the year end, the Company has repurchased a further 440,000 shares for cancellation and the total number of shares in issue is now 47,263,038.

The wide discount at which the Company's shares continue to trade, whilst common to the whole sector, remains a source of concern to the Board. We are nonetheless confident that in more favourable market conditions the share price would more fully reflect the underlying value of the Company's assets.

#### *Outlook*

The Board is pleased with the robust performance by the Company across its portfolio despite external economic challenges which will undoubtedly continue throughout 2009. Accordingly, the Board remains cautiously optimistic about the outlook for 2009.

Ray Horney  
Chairman  
19 March 2009

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## **Investment Manager's Report for the Chinese property market**

### *Introduction*

During the period under review, the Company continued to enhance its asset base and provide superior portfolio management. Despite the global financial crisis and subsequent economic slowdown, which has of course impacted China's economic base, the property market has remained relatively resilient, with the additional support of the People's Republic of China ("PRC") government through its monetary and fiscal expansion of the country's economy, and should provide attractive long term returns from the Company's commercial property portfolio.

### *Macro Economic Environment*

China reported 9 per cent GDP growth for the year ended 31 December 2008 and has now progressed to being the third largest economy in the world. However, annualised GDP growth in the fourth quarter slowed to 6.8 per cent, showing that there was a significant slowdown in the economy in the latter part of the year arising from the impact of global economic deceleration.

Real GDP growth is expected to slow in 2009 as falling global demand continues to reduce exports, whilst the domestic economy has also entered a period of falling growth, due to the weakening of the manufacturing sector, tied directly to the serious downturn in global demand for its products. This has resulted in significant unemployment and whilst domestic demand remains high, it is expected to deteriorate somewhat in 2009. In response to this weakening demand, the PRC government has reacted rapidly, stimulating domestic demand through a combination of aggressive interest rate and reserve ratio cuts, the elimination of credit quotas and a fiscal stimulus package introduced in late 2008, designed to accelerate the transformation of the economy from an export led to a more domestic demand driven growth model.

China has considerable ammunition to stimulate short run economic activity owing to its low government debt (15 per cent of GDP), high household savings ratio (26 per cent), substantial current account surplus (some 10 per cent of GDP) and high level of foreign reserve holdings. Given that the real estate sector's slowdown was broadly policy-induced, the new incentives are expected to start yielding results quickly, with some growth expected in the second half of 2009 and firmer economic recovery expected in 2010. Encouragingly, China's new loans rose by a record amount in January 2009 as banks reported CNY 1.62 trillion (US\$237 billion) of new local currency loans as against CNY 800 billion in December 2008.

In addition, longer term fundamentals remain favourable, underpinning the economy's future growth prospects. China continues to witness an urbanisation trend that sees an average of 15 million people move into the country's cities and urban centres annually. The fiscal stimulus targeted at further infrastructure investment will help bolster the continuation of this trend.

In particular, the residential segment of the real estate market in China has suffered in the past 12 months. However, CREO's sector focus is on the commercial and retail segments of the market.

Shanghai's GDP increased by 9.7 per cent in 2008, the first time that its annual growth rate has dipped below 10 per cent since 1992. Disposable income per capita saw strong growth of 12.9 per cent in the year to CNY 26,675 though its growth slowed in the fourth quarter of the year. Despite this, total retail sales in Shanghai still grew by 19.5 per cent in the final quarter year on year, highlighting a higher growth trend when compared with year on year growth of 17.4 per cent for the nine months to September 2008. This trend is expected to deteriorate in 2009. As a result, the retail property market performance remained strong in the second half of the year as retailers sought to proceed with entry and expansion plans and demand remained high, particularly in the third quarter. International retailers such as Hermes and LVMH continued to expand, while new entrants Marks & Spencer and Tesco opened flagship stores during the period. While average prime ground floor rents rose by 2 per cent quarter on quarter in the three months to September, as the retail market outlook weakened towards the final months of the year, prime retail rents experienced some pressure and average ground floor rent decreased by 3.1 per cent quarter-on-quarter. Despite an additional 86,000 square metres of new retail supply added in Shanghai during the period, vacancy rates remained low, at 6.5 per cent in December.

The Shanghai commercial office sector has had a mixed performance as the dramatic slowdown in the global economy has resulted in slackening demand for office space, particularly from international companies, in the latter part of the year. In addition, significant supply has come on-stream in the Shanghai office market in the past year, pushing average vacancy rates up to 13 per cent by the end of 2008. The Pudong district of Shanghai has been hardest hit by higher vacancy and pressure on rents, due to the increase in supply there and the prominence of financial services sector tenants. Rents in Puxi, where all of CREO's investment assets are located, have been less affected by reduced take-up and competition, due primarily to a lack of new international grade A supply during the year.

## **CREO portfolio**

### *Investment portfolio*

CREO's consistent strategy has been to use its international expertise in investment property and asset management and apply this model to its Chinese portfolio. To that end, throughout the year the Company continued to focus on intense asset management of the investment portfolio, which represents 75 per cent of the Company's total portfolio, including the strategic upgrading and refurbishment of some existing investment assets, as well as closely managing existing and prospective tenant relationships. This intense focus has yielded positive results in relation both to new lettings and rent renewals during the year as well as achieving consistently high occupancy rates across the portfolio. This continued focus on asset management will also provide CREO with a strong foundation to achieve continued longer term growth.

The Central Plaza office tower refurbishment programme was completed in 2008 and the City Center office tower programme is now near completion. Both programmes have been well received by existing and prospective tenants and have gone some way to repositioning both assets to meet prime customer demand.

Gross rental income increased by 23 per cent year on year, while average occupancy in the CREO portfolio was 92 per cent. 35 new lettings were secured in the period and 76 rent renewals were completed across the Company's investment portfolio, achieving an average rental increase of over 16 per cent.

Table 3: Asset Management: Year to 31 December 2008

**Office**

	Occupancy	New lettings (No.)	Rent renewals (No.)	Average rental increase per cent
Central Plaza	80.8 per cent	4	9	18.7 per cent
Treasury Building	92.6 per cent	3	0	N/A*
City Center	91.6 per cent	15	26	22.9 per cent

\* No comparative year on year data

**Retail**

	Occupancy	New lettings (No.)	Rent renewals (No.)	Average rental increase per cent
Central Plaza	85.2 per cent	0	8	3.8 per cent
City Center	98.9 per cent	13	33	10.5 per cent

**Total**

	Occupancy	New lettings (No.)	Rent renewals (No.)	Average rental increase per cent
Portfolio	91.8 per cent	35	76	16.8 per cent

*Development portfolio*

In addition, CREO has a strong development pipeline which will secure additional future long term growth.

After securing the necessary construction approvals and the appointment of a construction company through public tender in Q4 of 2008, initial pre-construction of the Beijing logistics park commenced in November 2008. The park is located on one of the last sites in the airport's dedicated logistics park. The project covers 11.5 hectares and is close to both the airport and national road network. Adjacent tenants include international firms such as TNT, Prologis and Sante Fe amongst others. Whilst substantial leasing enquiries for the CREO logistics park were received during the first half of 2008 and appointed consultant CB Richard Ellis reported continuing support for this sector, it has become clear in light of the current market environment that demand from international tenants in particular has slowed considerably and as such the Company has decided not to proceed with further construction of the logistics park until the leasing market stabilises.

2008 saw further consolidation of the Company's Tangdao Bay development project, including the additional acquisition in the early part of the year of a further two sites adjoining

the Company's existing development site, owned in a joint venture with Shanghai Industrial Investment Corporation.

The site for the City Center extension in Shanghai is cleared and available for redevelopment while the Company moves ahead with the Master Layout Planning submission to Government in 2009 and is in discussions with international retailers to anchor the scheme.

Schematic design approval from Government has been achieved on the City Center Development (CC5) with construction now anticipated to begin in late May 2009.

## **Financial Review**

Gross rental income increased to £26 million, representing an increase of 23% year on year. Administration expenses amounted to £66 million for the year ended 31 December 2008, compared to £18 million in the prior year period. This increase is primarily due to performance fees of £44 million payable to the Investment Adviser in accordance with contractual arrangements and based on the strong NAV growth. In addition, the appreciation of the US dollar against sterling has led to net foreign exchange losses in 2008 mainly arising from interest-bearing loans denominated in US dollars held by the Company. As a result, net finance expenses increased to £73 million in the period. This led to a pre-tax loss of £92 million.

The total property portfolio value as presented in the accounts has grown by 57% to £954 million since 31 December 2007, benefiting from valuation gains and the strength of the CNY against sterling. This has resulted in a diluted EPRA NAV of £13.24, up 59% year on year from £8.34 at 31 December 2007.

As at 31 December 2008, bank borrowings amounted to £344 million (31 December 2007: £247 million) resulting in gearing of 45 per cent on the investment portfolio and 36 per cent on the total portfolio. No new or additional debt facilities have been incurred in the period and the earliest debt maturity date is April 2010. CREO is therefore well positioned with a low loan to value and no immediate facility renewals. Whilst finance costs are well controlled, cash is being tightly managed to secure future working capital needs in this current market environment.

<sup>(1)</sup> China IMF forecast GDP growth in 2009

**Consolidated and Company balance sheets**  
**As at 31 December 2008**

	<i>Notes</i>	<b>31 Dec 2008 Group £'000</b>	<b>31 Dec 2008 Company £'000</b>	<b>31 Dec 2007 Group £'000</b>	<b>31 Dec 2007 Company £'000 Restated</b>
<b>Assets</b>					
<b>Non-current assets</b>					
Investment properties	8	763,558	-	497,133	-
Properties under development	9	149,797	-	87,280	-
Property, plant and equipment		<u>731</u>	=	<u>567</u>	=
		914,086	-	584,980	-
		-----	-----	-----	-----
<b>Other non-current assets</b>					
Investment in subsidiaries	10	-	229,215	-	216,709
Investment in joint venture	11	40,482	-	21,504	-
Deferred tax assets	12	<u>1,136</u>	=	<u>254</u>	=
		41,618	229,215	21,758	216,709
		-----	-----	-----	-----
<b>Current assets</b>					
Financial assets available					
-for-sale	13	22,860	14,741	2,567	-
Trade and other receivables	14	9,255	5,142	11,542	3,538
Restricted cash	15	18,356	-	17,786	-
Cash and cash equivalents	15	<u>66,640</u>	<u>10,450</u>	<u>79,210</u>	<u>39,828</u>
		117,111	30,333	111,105	43,366
		-----	-----	-----	-----
<b>Total assets</b>		<b><u>1,072,815</u></b>	<b><u>259,548</u></b>	<b><u>717,843</u></b>	<b><u>260,075</u></b>

**Consolidated and Company balance sheets**  
**As at 31 December 2008 (continued)**

	<i>Notes</i>	<b>31 Dec 2008 Group £'000</b>	<b>31 Dec 2008 Company £'000</b>	<b>31 Dec 2007 Group £'000</b>	<b>31 Dec 2007 Company £'000 Restated</b>
<b>Liabilities</b>					
<b>Non current liabilities</b>					
Interest-bearing loans and borrowings	<i>19</i>	(344,080)	-	(246,635)	-
Deferred tax liabilities	<i>12</i>	<u>(153,158)</u>	-	<u>(92,835)</u>	-
		(497,238)	-	(339,470)	-
		-----	-----	-----	-----
<b>Current liabilities</b>					
Trade and other payables	<i>20</i>	(90,102)	(56,120)	(37,564)	(16,841)
Tax payable	<i>21</i>	<u>(214)</u>	-	<u>(9,500)</u>	-
		(90,316)	(56,120)	(47,064)	(16,841)
		-----	-----	-----	-----
<b>Total liabilities</b>		<u>(587,554)</u>	<u>(56,120)</u>	<u>(386,534)</u>	<u>(16,841)</u>
		-----	-----	-----	-----
<b>Net assets</b>		<u>485,261</u>	<u>203,428</u>	<u>331,309</u>	<u>243,234</u>
<b>Equity</b>					
Stated capital		248,016	248,016	250,858	250,858
Reserves		296,431	21,054	39,352	5,407
(Accumulated losses)/Retained earnings		<u>(59,186)</u>	<u>(65,642)</u>	<u>41,099</u>	<u>(13,031)</u>
<b>Total equity attributable to equity holders of the Company</b>	<i>16</i>	<u>485,261</u>	<u>203,428</u>	<u>331,309</u>	<u>243,234</u>
<b>Net asset value per share</b>					
Basic	<i>18</i>	£10.17	£4.26	£6.54	£4.80
Diluted	<i>18</i>	£9.94	N/A	£6.46	£4.78
Diluted EPRA	<i>18</i>	£13.24	N/A	£8.34	N/A

These financial statements were approved by the board of directors on 18 March 2009 and were signed on its behalf by:

Director's name

Director's name

**Consolidated and Company income statements  
For the year ended 31 December 2008**

		<b>Year ended 31 December 2008</b>		<b>From 5 Dec 2006 to 31 Dec 2007</b>	
	Notes	Group £'000	Company £'000	Group £'000	Company £'000 Restated
Gross rental income	2	<u>26,121</u>	=	<u>9,076</u>	=
Net rental and related income	2	<u>25,295</u>	-	8,745	-
Valuation gains on investment properties		22,941	-	71,355	-
Administrative expenses	4	<u>(66,224)</u>	(61,274)	(18,102)	(15,664)
Other income		<u>19</u>	<u>18</u>	<u>38</u>	=
<b>Net operating (loss)/profit before net financing costs</b>		<b><u>(17,969)</u></b>	<b>(61,256)</b>	<b>62,036</b>	<b>(15,664)</b>
Financial income	5	<b>10,843</b>	9,679	13,518	2,804
Financial expenses	5	<u>(83,456)</u>	<u>(1,034)</u>	<u>(15,082)</u>	<u>(171)</u>
Net financing (expenses)/income		<b><u>(72,613)</u></b>	<b>8,645</b>	<b>(1,564)</b>	<b>2,633</b>
Share of loss of joint venture	11	<b><u>(1,022)</u></b>	-	<b>(175)</b>	-
<b>(Loss)/profit before tax</b>		<b><u>(91,604)</u></b>	<b>(52,611)</b>	<b>60,297</b>	<b><u>(13,031)</u></b>
Income tax expenses	6	<u>(7,965)</u>	=	<u>(19,198)</u>	=
<b>(Loss)/profit for the year/period</b>		<b><u>(99,569)</u></b>	<b><u>(52,611)</u></b>	<b><u>41,099</u></b>	<b><u>(13,031)</u></b>
<b>Attributable to:</b>					
Equity holders of the Company		<b><u>(99,569)</u></b>	<b><u>(52,611)</u></b>	<b><u>41,099</u></b>	<b><u>(13,031)</u></b>
<b><u>(Loss)/earnings per share</u></b>					
Basic	7	<b>(£1.96)</b>		£1.30	
Diluted	7	N/A		£1.27	

**Consolidated and Company statements of recognised income and expenses  
For the year ended 31 December 2008**

	Notes	Year ended 31 December 2008		From 5 Dec 2006 to 31 Dec 2007	
		Group £'000	Company £'000	Group £'000	Company £'000 Restated
Exchange translation differences	16	221,424	-	10,888	-
Revaluation of properties under development and property in joint venture net of tax	16	19,292	-	23,057	-
Revaluation of financial assets available-for-sale	16	<u>383</u>	<u>383</u>	-	-
<b>Net gain recognised directly in equity</b>		241,099	383	33,945	-
<b>(Loss)/profit for the year/period</b>	16	<u>(99,569)</u>	<u>(52,611)</u>	<u>41,099</u>	<u>(13,031)</u>
<b>Total recognised income and expenses for the year/period</b>		<u>141,530</u>	<u>(52,228)</u>	<u>75,044</u>	<u>(13,031)</u>
<b>Attributable to:</b>					
Equity holders of the Company		<u>141,530</u>	<u>(52,228)</u>	<u>75,044</u>	<u>(13,031)</u>

**Reconciliation of movements in shareholders' funds for the year ended 31 December 2008**

	Notes	Year ended 31 December 2008		From 5 Dec 2006 to 31 Dec 2007	
		Group £'000	Company £'000	Group £'000	Company £'000 Restated
Total recognised income and expenses for the year/period		141,530	(52,228)	75,044	(13,031)
Transactions with shareholders					
- Issue of new shares	16	3,521	3,521	264,583	264,583
- Purchase of own shares	16	(7,175)	(7,175)	(15,255)	(15,255)
- Share options exercised	16	90	90	170	170
- Equity-settled share-based transactions	16	<u>15,986</u>	<u>15,986</u>	<u>6,767</u>	<u>6,767</u>
Movement in shareholders' funds for the year/period		<u>153,952</u>	<u>(39,806)</u>	<u>331,309</u>	<u>243,234</u>
Opening shareholders' funds – equity		<u>331,309</u>	<u>243,234</u>	<u>-</u>	<u>-</u>
<b>Closing shareholders' funds – equity</b>		<u>485,261</u>	<u>203,428</u>	<u>331,309</u>	<u>243,234</u>

**Consolidated statement of cash flows**  
**For the year ended 31 December 2008**

	Year ended 31 Dec 2008 Group £'000	From 5 Dec 2006 To 31 Dec 2007 Group £'000
<b>Operating activities</b>		
(Loss)/profit for the year/ period	(99,569)	41,099
Change in fair value of investment properties	(22,941)	(71,355)
Equity-settled share-based transactions	15,986	6,767
Depreciation of properties, plant and equipment	89	101
Net financing expenses	72,613	1,564
Changes in fair value of financial assets available-for-sale	329	-
Cost of call option written off	1,544	-
Share of loss of joint venture	1,022	175
Income tax expenses	<u>7,965</u>	<u>19,198</u>
	(22,962)	(2,451)
Income tax paid	(7,410)	(689)
Decrease in trade and other receivables	7,136	4,018
Increase/(decrease) in trade and other payables	<u>27,613</u>	<u>(26,484)</u>
<b>Cash generated/(used) in operating activities</b>	<b>4,377</b>	<b>(25,606)</b>
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<b>Investment activities</b>		
Acquisition of subsidiaries net of cash required	-	(301,893)
Investment in joint venture	-	(16,164)
Acquisition of other investments	(19,173)	(2,567)
Decrease/(increase) in restricted cash	4,573	(17,786)
Addition to tangible assets	(3,916)	(2,605)
Net proceeds from investment in currency derivatives	3,287	-
Purchase of call option	(1,544)	-
Interest received	<u>2,706</u>	<u>2,528</u>
<b>Cash flows used in investing activities</b>	<b>(14,067)</b>	<b>(338,487)</b>
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**Consolidated statement of cash flows**  
**For the year ended 31 December 2008 (continued)**

	<b>Year ended 31 Dec 2008 Group £'000</b>	<b>From 5 Dec 2006 To 31 Dec 2007 Group £'000</b>
<b>Financing activities</b>		
Proceeds from bank borrowings	-	221,663
Payment of transaction cost on loan issuance	-	(2,308)
Proceeds from shares issuance	<b>90</b>	246,245
Purchase of own shares	<b>(2,050)</b>	(15,255)
Interest paid	<b><u>(19,640)</u></b>	<b><u>(7,042)</u></b>
<b>Cash flows (used in)/from financing activities</b>	<b><u>(21,600)</u></b>	<b><u>443,303</u></b>
Net (decrease)/increase in cash and cash equivalents	<b>(31,290)</b>	79,210
Cash and cash equivalents at the beginning of the year/period	<b>79,210</b>	-
Effect of exchange rate fluctuations on cash held	<b>18,720</b>	-
<b>Cash and cash equivalents at 31 December</b>	<b><u>66,640</u></b>	<b><u>79,210</u></b>

The effect of exchange rate fluctuations on cash held in 2008 mainly arose from cash and cash equivalents held by the Group denominated in US Dollars (“USD”), Chinese Yuan (“CNY”), Hong Kong Dollars (“HKD”) and Euro (“EUR”) as a result of the appreciation of those currencies against Pound Sterling (“GBP”).

**Notes to the consolidated financial statements  
For the year ended 31 December 2008**

China Real Estate Opportunities plc (“the Company”) is domiciled in Jersey. The address of the Company’s registered office is Whiteley Chambers, Don Street, St Helier, Jersey.

The Company and its subsidiaries (together referred to as “the Group” and individually as “the Group entities”) are primarily involved in commercial real estate investment and development in the People’s Republic of China (“the PRC”). The Company’s principal objective is to achieve capital growth from a portfolio of properties in the PRC, focusing on large-scale development opportunities for income-producing assets such as office, logistics and retail properties. The investment portfolio concentrates on the commercial sector where the Directors believe there is greater growth potential.

**1. SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies have been applied consistently by the Group entities and the Group’s interest in a jointly controlled entity in dealing with items which are considered material in relation to the Company and Consolidated financial statements (“the financial statements”), except for a change in accounting policy on investment in subsidiaries by the Company as discussed in Note 1(c)(iv) below and Note 10.

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (“IASB”).

**(b) Basis of preparation**

These consolidated financial statements are presented in pounds sterling, which is the Company’s functional currency. All financial information presented in pounds sterling has been rounded to the nearest thousand.

They are prepared on the historical cost basis except for the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial assets available-for-sale, investment in joint ventures, investment properties and properties under development.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and 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 year 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 IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Notes 8 and 27.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Basis of preparation (continued)

As at 31 December 2008, the Company has a net current liability of £25.8 million. Since the major creditor of the Company, Treasury Holdings China Limited (“THCL”), has agreed not to request the Company to settle the £30 million cash component of the 2008 performance fee immediately and to accept settlement of this £30 million debt over a phased period of over twelve months when the Company has the financial resources to settle, the financial statements have been prepared on a going concern basis.

### (c) Basis of consolidation

#### (i) *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### (ii) *Joint ventures*

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group’s share of the total recognised income and expenses of jointly controlled entities on an equity accounted basis.

#### (iii) *Transactions eliminated on consolidation*

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses 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) Basis of consolidation (continued)

#### (iv) *Investments by the Company*

The Company has changed its accounting policy on investments in subsidiaries. The new policy adopted by the Company for the financial year ended 31 December 2008 is to recognise investments in subsidiaries at cost in accordance with IAS 27 “Consolidated and Separate Financial Statements”. Previously, for the period ended 31 December 2007, the first accounting period of financial statements of the Company, investments in subsidiaries were carried at fair value in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” in the financial statements of the Company. The directors of the Company consider that the new policy is more in line with the accounting treatment adopted across the industry and therefore should provide more reliable and relevant information. The change in accounting policy has been accounted for retrospectively. The comparatives in the Company’s financial statements have been restated in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

### (d) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued, values the properties every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market’s general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment properties is accounted for as described in accounting policy (n).

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Investment properties (continued)

When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

When the Group begins to redevelop an existing investment property with a view to resale, the property is transferred to trading properties and held as a current asset. The property is re-measured to fair value as at the date of transfer with any gain or loss taken to profit or loss. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

### (e) Properties under development

Property that is being constructed or developed for future use as investment property is classified as properties under development. This is recognised initially at cost but is subsequently re-measured to fair value at each reporting date. Any gain or loss on re-measurement is taken direct to the revaluation reserve in equity unless any loss in the period exceeds any net cumulative gain previously recognised in equity. In the latter case, the amount by which the loss in the period exceeds the net cumulative gain previously recognised is taken to the income statement. On completion, the property is transferred to investment property with any final difference on re-measurement accounted for in accordance with the foregoing policy on investment properties.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditure for the development qualifying as acquisition costs are capitalised.

### (f) Property, plant and equipment

#### (i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation (see (iv) below) and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in the income statement.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Property, plant and equipment (continued)

#### (ii) *Reclassification to investment property*

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognised directly in equity. Any loss is recognised immediately in the income statement.

#### (iii) *Subsequent expenditure*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

#### (iv) *Depreciation*

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives are as follows:

Buildings situated on leasehold land	20 years
Fixtures, fittings and equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

### (g) Land use rights

Land use rights represent lease prepayments for acquiring rights to use land in the PRC with a period of 40-50 years. Land use rights granted with consideration are recognised initially at acquisition cost. Land use rights are classified and accounted for in accordance with the intended use of the properties erected on the related land.

For investment properties and properties under development, the corresponding land use rights are classified and accounted for as part of the investment properties and properties under development respectively, which are carried at fair value as described in Notes 8 and 9.

For properties that are developed for sale, the corresponding land use rights are classified and accounted for as part of the properties.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Foreign currency

#### (i) *Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currencies of the Group's entities at the spot foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the respective functional currencies at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

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

#### (ii) *Financial statements of foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to pounds sterling at the foreign exchange rates ruling at the balance sheet date. The income and expenses of foreign operations are translated to pounds sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in equity in the translation reserve.

#### (iii) *Net Investment in foreign operations*

Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve in equity. They are released into the income statement upon disposal.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Impairment

#### (i) *Financial Assets*

All financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

#### (ii) *Non-financial Assets*

The carrying amounts of the Group's non-financial assets, other than investment properties, properties under development and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Impairment (continued)

#### (ii) *Non-financial Assets (continued)*

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss on other assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (j) Share capital

#### (i) *Ordinary share capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

#### (ii) *Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are cancelled and the cost of repurchase is deducted from stated capital account.

#### (iii) *Dividends*

Ordinary dividends are recognised as a liability in the period in which they are approved by the shareholders in a general meeting and declared.

### (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 cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Share-based payments

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value of share options is measured using the Binomial option pricing method. The expected life used has been adjusted, based on management's best estimate, for effects of behavioural considerations. Share-based payment arrangements in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiary in the Company's balance sheet which is eliminated on consolidation.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

### (m) Provisions and contingent liabilities

#### (i) *Provisions and contingent liabilities.*

A provision is recognised if, as a result of a past event, the Group has present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### (ii) *Other provisions and contingent liabilities*

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 an outflow of economic benefits is remote.

### (n) Rental Income from operating leases

Rental income from investment property leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the assets.

### (p) Borrowing costs

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset 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. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate.

### (q) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) 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.

### (s) Segment reporting

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

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in unlisted equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

#### *Available-for-sale financial assets*

The Group's investment in certain equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

#### *Cash and cash equivalents*

Cash and cash equivalents comprises cash balances and call deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

### (u) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in the income statement.

The fair value of interest rate swaps and currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

### (v) Other receivables

Trade and other receivables are stated at their cost less impairment losses.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (w) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

### (x) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements.

- IFRIC 13, Customer loyalty programmes (effective date: financial year beginning 1 July 2008)
- IFRIC 16, Hedges of a net investment in a foreign operation (effective date: financial year beginning 1 October 2008)
- IFRS 8, Operating segments (effective date: financial year beginning 1 January 2009)
- Revised IAS 1, Presentation of financial statements (effective date: financial year beginning 1 January 2009)
- Revised IAS 23, Borrowing costs (effective date: financial year beginning 1 January 2009)
- Amendment to IFRS 2, Share-based payment - Vesting conditions and cancellations (effective date: financial year beginning 1 January 2009)
- Amendment to IAS 32, Financial instruments: Presentation and IAS 1, Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation (effective date: financial year beginning 1 January 2009)
- Amendment to IFRS 1, First-time adoption of International Financial Reporting Standards, and IAS 27, Consolidation and separate financial statements - Cost of an investment in a subsidiary, jointly - controlled entity or associate (effective date: financial year beginning 1 January 2009)
- Improvements to IFRSs (effective date: financial year beginning 1 January 2009 or 1 July 2009)
- IFRIC 15, Agreements for the construction of real estate (effective date: financial year beginning 1 January 2009)

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (x) New standards and interpretations not yet adopted (continued)

- Revised IFRS 1, First-time adoption of International Financial Reporting Standards (effective date: financial year beginning 1 July 2009)
  - Basis for conclusions on revised IFRS 1, First-time adoption of International Financial Reporting Standards
  - Implementation guidance on revised IFRS 1, First-time adoption of International Financial Reporting Standards
- Revised IFRS 3, Business combinations (applies to business combinations for which the acquisition date is on or after the beginning of first annual reporting period beginning on or after 1 July 2009)
- Amendment to IAS 27, Consolidated and separate financial statements (effective date: financial year beginning 1 July 2009)
- Amendment to IAS 39, Financial instruments: Recognition and measurement - Eligible hedged items (effective date: financial year beginning 1 July 2009)
- IFRS 17, Distribution of non-cash assets to owners (effective date: financial year beginning 1 July 2009)
- IFRIC 18, Transfer of assets from customers (effective date: applies to transfers of assets from customers received on or after 1 July 2009)

The standards and interpretations addressed above will be applied for the purposes of the Group financial statements with effect from the dates listed.

The directors have confirmed that the above IFRSs and interpretations do not have a significant impact on how the results of operations and financial position of the Group for the year ended 31 December 2008 are prepared and presented. These IFRSs and interpretations may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

## 2. GROSS AND NET RENTAL INCOME

	Year ended 31 Dec 2008 £'000	From 5 Dec 2006 to 31 Dec 2007 £'000
Gross rental income	26,121	9,076
Service charge income on principal basis	4,888	1,772
Service charge expenses on principal basis	(4,293)	(1,695)
Property operating expenses	(1,421)	(408)
<b>Net rental and related income</b>	<b><u>25,295</u></b>	<b><u>8,745</u></b>

Rental income in 2008 represents a full twelve months of revenue while 2007 rental income relates to rental income earned for the period from the date of acquisition during 2007 up to 31 December 2007.

## 3. SEGMENT REPORTING

### Primary and secondary segments

Since the PRC is the sole location of the Group's property portfolio, these financial statements and related notes represent the results and financial position of the Group's primary business segment.

The secondary reporting format by property use is shown below:

	Offices		Retail		Car Parking		Others		Total	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Group property assets	466,541	295,695	272,341	185,206	24,676	16,232	149,797	87,280	913,355	584,413
Joint venture net property assets	-	-	-	-	-	-	<u>40,482</u>	<u>21,504</u>	<u>40,482</u>	<u>21,504</u>
Total property assets	<u>466,541</u>	<u>295,695</u>	<u>272,341</u>	<u>185,206</u>	<u>24,676</u>	<u>16,232</u>	<u>190,279</u>	<u>108,784</u>	<u>953,837</u>	<u>605,917</u>
Additions during the year	<u>1,508</u>	<u>326</u>	=	=	=	=	<u>2,156</u>	<u>6,507</u>	<u>3,664</u>	<u>6,833</u>
Net rental income	<u>18,057</u>	<u>6,350</u>	<u>5,910</u>	<u>2,093</u>	<u>843</u>	<u>275</u>	<u>485</u>	<u>27</u>	<u>25,295</u>	<u>8,745</u>

#### 4. ADMINISTRATIVE EXPENSES

	<b>Year ended 31 Dec 2008 £'000</b>	<b>From 5 Dec 2006 to 31 Dec 2007 £'000</b>
Management fees (Note 25)	(8,524)	(3,418)
Performance fee (Note 25)	(43,773)	(3,588)
Depreciation of property, plant and equipment	(89)	(101)
Directors' fees (see below)	(140)	(105)
Auditors' remuneration		
- for audit services	(200)	(120)
- for tax advisory services	(29)	(124)
- other services	(81)	(87)
Share-based payments expense (Note 17)	(2,194)	(6,767)
Cost of call option written off (Note 13)	(1,544)	-
Other administration expenses	<u>(9,650)</u>	<u>(3,792)</u>
	<u>(66,224)</u>	<u>(18,102)</u>

Management fees of £8.5 million are incurred for various services provided to the Group by THCL and Treasury (Shanghai) Real Estate Consulting Co. Limited (“TSREC”), the nature of which is set out in Note 25. In relation to the annual performance fee of £43.77 million, in accordance with the investment advisory agreement, THCL, the investment manager of the Group, is entitled to receive a cash component up to £29.98 million with the balance of the performance fee, £13.79 million, in allotted and issued ordinary shares in the Company.

The fees of the directors of the Company for the year were as follows:

	<b>Year ended 31 Dec 2008 £'000</b>	<b>From 5 Dec 2006 to 31 Dec 2007 £'000</b>
<b>Non-executive</b>		
R Horney	(50)	(37.5)
I Ling	(30)	(22.5)
S Leckie	(30)	(22.5)
R Pirouet	<u>(30)</u>	<u>(22.5)</u>
	<u>(140)</u>	<u>(105)</u>

Annual directors' fees are an aggregate of £140,000 per annum.

## 5. NET FINANCING EXPENSES

	Year ended 31 Dec 2008 £'000	From 5 Dec 2006 to 31 Dec 2007 £'000
Interest income	2,627	2,608
Net foreign exchange gains	-	10,705
Gains on sale of foreign currency option realised	6,644	-
Change in fair value of currency derivatives	<u>1,572</u>	<u>205</u>
Financial income	<u>10,843</u>	<u>13,518</u>
Gross interest expenses	(22,951)	(8,950)
Net foreign exchange losses	(49,847)	-
Change in fair value of interest rate derivatives	<u>(10,658)</u>	<u>(6,132)</u>
Financial expenses	<u>(83,456)</u>	<u>(15,082)</u>
Net financing expenses	<u>(72,613)</u>	<u>(1,564)</u>

The Group has not capitalised any interest for the year.

Net foreign exchange losses in 2008 mainly arose from interest-bearing loans denominated in USD held by the Group's subsidiaries incorporated in Jersey as a result of the depreciation of GBP against USD.

## 6. INCOME TAX EXPENSES

### (i) Income tax in the consolidation income statement represents:

	Year ended 31 Dec 2008 £'000	From 5 Dec 2006 to 31 Dec 2007 £'000
<u>Current tax</u>		
Provision for PRC enterprise income tax	(746)	(1,139)
Provision for withholding income tax	(451)	(189)
	(1,197)	(1,328)
	-----	-----
<u>Deferred tax</u>		
Tax losses	252	(73)
Fair value movement on financial derivatives	158	203
Revaluation of investment properties	(8,811)	(23,547)
Net effect of change in enacted future tax rate	-	5,547
Foreign exchange differences	1,004	-
Pre-operating expenses	<u>6</u>	-
	(7,391)	(17,870)
	-----	-----
Land appreciation tax written back	623	-
	-----	-----
Total	<u>(7,965)</u>	<u>(19,198)</u>

As a collective investment fund under the Collective Investment Funds (Jersey) Law 1988, the Company is entitled to exempt company status in Jersey under the provisions of article 123(A) of the Income Tax (Jersey) Law, 1961 on payment of an annual fee which is currently £600. As an exempt company, the income and capital gains of the Company, other than Jersey source income (excluding bank deposit interest), is exempt from taxation in Jersey for the financial year 2008.

With effect from 3 June 2008, the income tax rate for companies in Jersey was reduced from 20% to 0% and exempt company status for all new companies was abolished. The existing exempt company status of the Company and its Jersey subsidiaries will remain in place until 31 December 2008 at which time they will move to a 0% rate of income tax.

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008/2009.

## 6. INCOME TAX EXPENSES (CONTINUED)

No provision for Hong Kong Profits Tax has been made for the companies in the Group as they either have no assessable profits or have available tax losses brought forward from prior years to offset against current year's estimated assessable profits.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which took effect on 1 January 2008. From 1 January 2008, the Group's PRC subsidiaries are subject to PRC income tax at a rate of 25%.

### (ii) Reconciliation between tax expenses and accounting profit at applicable tax rate:

	Year ended 31 Dec 2008 £'000	From 5 Dec 2006 to 31 Dec 2007 £'000
(Loss)/profit before taxation	(91,604)	60,297
Less: Land appreciation tax	<u>623</u>	-
	(90,981)	60,297
	-----	-----
Notional tax on (loss)/profit before tax, calculated at 25%/ (2007: 33%)	22,745	(19,898)
Non-deductible expenses net of non-taxable income	(30,825)	(4,559)
Deferred tax assets not recognised (Note 12)	(138)	(98)
Tax loss not recognised in previous year (Note 12)	81	-
Net effect of change in future enacted tax rate	-	<u>5,547</u>
	(8,137)	(19,008)
	-----	-----
Land appreciation tax	623	-
Withholding income tax	(451)	(190)
	-----	-----
Income tax	<u>(7,965)</u>	<u>(19,198)</u>

Taxable income of the Group for the year ended 31 December 2008 was mainly generated by Shanghai Hua Tian Property Development Company Limited, Shanghai Central Land Estate Company Limited and Shanghai Vision Honest Real Estate Development Company Limited, which are subject to PRC income tax rates of 25%.

## 7. (LOSS)/EARNINGS PER SHARE

The calculation of the Group basic loss per share at 31 December 2008 was based on the loss attributable to ordinary shareholders of £99.6 million (profit for the period ended 31 December 2007: £41.1 million) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2008 of 50,915,682 (period ended 31 December 2007: 31,683,368). Diluted loss per share is computed by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive share options.

	<b>Year ended 31 Dec 2008 £'000</b>	<b>Period ended 31 Dec 2007 £'000</b>
(Loss)/profit attributable to ordinary shareholders	<u>(99,569)</u>	<u>41,099</u>
<b>i) Basic earnings per share</b>		
Weighted average number of shares for the year (Basic)	<u>50,915,682</u>	<u>31,683,368</u>
Basic (loss)/earnings per share	<u>(£1.96)</u>	<u>£1.30</u>
<b>ii) Diluted earnings per share</b>		
Weighted average number of ordinary shares (Basic)	N/A	31,683,368
Effect of share options in issue	N/A	641,043
	-----	-----
Weighted average number of ordinary shares (Diluted)	<u>N/A</u>	<u>32,324,411</u>
Diluted earnings per share	<u>N/A</u>	<u>£1.27</u>
Diluted loss per share amounts for the year ended 31 December 2008 have not been disclosed, as the share options outstanding during the year do not have a dilutive effect on the loss of the Group for the year.		
<b>iii) Diluted EPRA earnings per share</b>		
Profit/(loss) attributable to ordinary shareholders (Diluted)	N/A	41,099
Revaluation movement on investment Properties	N/A	(71,355)
Movement in fair value of financial instruments	N/A	5,927
Deferred tax	<u>N/A</u>	<u>17,969</u>
	<u>N/A</u>	<u>(6,360)</u>
	-----	-----
Weighted average number of ordinary shares (Diluted)	<u>N/A</u>	<u>31,683,368</u>
Diluted EPRA loss per share	<u>N/A</u>	<u>(£0.20)</u>

The European Public Real Estate Association (EPRA) issued Best Practice Policy Recommendations in November 2006, which gives guidelines for performance measures. The EPRA earnings exclude investment property revaluations, movement in fair value of financial instruments and their related tax consequences.

## 8. INVESTMENT PROPERTIES

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
<b>Group</b>		
Balance at 1 January 2008 / 5 December 2006	497,133	-
Acquisitions through business combinations	-	412,400
Additions	1,508	326
Foreign currency adjustments	241,267	13,052
Fair value adjustments	<u>23,650</u>	<u>71,355</u>
Balance at 31 December	<u>763,558</u>	<u>497,133</u>

### Accounting estimates

The most significant judgements made in preparing these financial statements relate to the carrying value of properties stated at open market value at the balance sheet date. The Group uses external independent professional valuers in calculating these valuations.

The values of the properties are dependent on a variety of factors applying in the market in which the Group operates including: local economic conditions, legislation, economic growth prospects, interest rates, inflation, customer demand and levels of investment yield. Furthermore, the values of individual properties are determined by their specific usage and locations, the quality of their tenants and the rents paid by them and their potential for alternative usage or development.

The board of directors mitigates these risks by the employment of an expert professional management team and by adopting appropriate strategic objectives to be pursued and by incentivising management through appropriate performance based remuneration packages.

At 31 December 2008, the investment properties and properties under development (Note 9) were revalued at fair value. The valuations were undertaken by independent international valuation firm CB Richard Ellis and carried out in compliance with the Royal Institute of Chartered Surveyors Practice Standards. The rental yields applied per the valuations for office and retail properties in the PRC were estimated to be in the range of 5.75% - 6.25% p.a.

The revaluation gains of £23.7 million (period ended 31 December 2007: £71.4 million) have been taken to the consolidated income statement for the year. All the investment properties are held by the Group's subsidiaries incorporated in the PRC. The foreign currency adjustments arose as a result of the appreciation of CNY against GBP.

All the investment properties are rented out under operating leases.

As at 31 December 2008 investment properties with a total carrying value of £764 million were pledged as collateral for the Group's borrowings.

## 9. PROPERTIES UNDER DEVELOPMENT

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
<b>Group</b>		
Balance at 1 January 2008 / 5 December 2006	87,280	-
Acquisitions through business combinations	-	48,277
Acquisition of land use rights	-	6,294
Additions	2,156	6,507
Foreign currency adjustments	45,877	2,288
Fair value adjustments	<u>14,484</u>	<u>23,914</u>
Balance at 31 December	<u>149,797</u>	<u>87,280</u>

At 31 December 2008 the properties under development were revalued at fair value. The valuations were undertaken by independent international valuation firm CB Richard Ellis (Note 8). The revaluation surplus of £15.2 million (2007: £23.9 million) and revaluation deficit of £0.7 million (2007: nil) have been taken to equity and profit or loss respectively. All the properties under development are held by the Group's subsidiaries incorporated in the PRC. The foreign currency adjustments arose as a result of the appreciation of CNY against GBP.

The Group has not capitalised any interest in the period.

## 10. INVESTMENT IN SUBSIDIARIES - Company

In the 2007 annual report, the first accounting period of Company accounts, investments in subsidiaries were recognised at fair value under IAS 39 "Financial Instruments: Recognition and Measurement". The Company has changed the accounting policy in this regard and now recognises investments in subsidiaries at cost in accordance with IAS 27 "Consolidated and Separate Financial Statements". The impact of the change in accounting policy on the period ended 31 December 2007 is to decrease the carrying value of investment in subsidiaries by £180.9 million. As a result, the Company shareholders' funds at 31 December 2007 have decreased by £180.9 million and the Company's NAV for 2007 has decreased from £424.1 million to £243.2 million.

	<b>2008</b> <b>£'000</b>	<b>Company</b> <b>2007</b> <b>£'000</b>
Balance at 1 January 2008 / 5 December 2006	216,709	-
Loans to subsidiaries	-	184,265
Additions in the year / period	12,506	32,444
Fair value adjustments	-	180,910
Prior year adjustment	-	<u>(180,910)</u>
Balance at 31 December	<u>229,215</u>	<u>216,709</u>

## 10. INVESTMENT IN SUBSIDIARIES (CONTINUED)

All of the Company's subsidiaries are wholly owned. A list of subsidiaries is set out in Note 26. The principal subsidiaries in the PRC which hold properties are as follows:

	Country of incorporation	Ownership interest 2008 %	Ownership interest 2007 %
Shanghai Vision Honest Real Estate Development Company Limited	People's Republic of China	100	100
Shanghai Central Land Estate Company Limited	People's Republic of China	100	100
Shanghai Hua Tian Property Development Company Limited	People's Republic of China	100	100
Beijing Dream Land Industrial Development Company Limited	People's Republic of China	100	100

The principal subsidiaries which have entered into borrowing facilities on behalf of the Company and its property holding subsidiaries are:

Shanghai Vision Honest Real Estate Development Company Limited	People's Republic of China	100	100
Shanghai Central Land Estate Company Limited	People's Republic of China	100	100
Shanghai Hua Tian Property Development Company Limited	People's Republic of China	100	100
CREO (Shanghai Central Plaza) Limited	Jersey	100	100
CREO (Shanghai City Centre) Limited	Jersey	100	100
Grand Eastern Limited	British Virgin Islands	100	100

## 11. INVESTMENT IN JOINT VENTURE

The Group has the following joint venture investment:

	Country	Ownership interest 2008 %
Qingdao Shangshi CREO Real Estate Company Limited	People's Republic of China	50

## 11 INVESTMENT IN JOINT VENTURE (CONTINUED)

The Group has a 50% interest in a joint venture, Qingdao Shangshi CREO Real Estate Company Limited, whose principal activity is real estate development. The Group entered into a joint venture agreement with SIIC Shanghai (Holdings) Company Limited (“SIIC”) and Shanghai Shangshi City Development & Investment Company Limited (“SSCD”) dated 15 May 2007 to govern the relationship of the parties over their interests in Qingdao Shangshi CREO Real Estate Company Limited. Qingdao Shangshi CREO Real Estate Company Limited holds the land use rights in respect of a development site at Tangdao Bay in Shandong Province, the PRC.

### Summary financial information on joint venture - (50%)

	<b>31 Dec 2008 £'000</b>	<b>31 Dec 2007 £'000</b>
Non-current assets	68,256	26,615
Current assets	103	5,237
Non-current liabilities	(5,659)	(1,543)
Current liabilities	<u>(22,218)</u>	<u>(8,805)</u>
Net assets	<u>40,482</u>	<u>21,504</u>
Income	-	9
Expenses	<u>(1,022)</u>	<u>(184)</u>
Net loss	<u>(1,022)</u>	<u>(175)</u>

### Movement in investment in joint venture

	<b>2008 £'000</b>	<b>2007 £'000</b>
Balance at 1 January 2008 / 5 December 2006	21,504	-
Acquisition	-	16,164
Share of revaluation gains on properties (Note 16)	7,897	4,924
Share of loss of joint venture	(1,022)	(175)
Share of translation reserve	<u>12,103</u>	<u>591</u>
Balance at 31 December	<u>40,482</u>	<u>21,504</u>

The property of the joint venture was revalued at fair value at 31 December 2008. The valuation was undertaken by independent international valuation firm CB Richard Ellis. Qingdao Shangshi CREO Real Estate Company Limited purchased two additional sites from an auction in November 2007. The Sales and Purchase Agreement for the sites were signed in January 2008 and the land use right certificates were obtained in April 2008. These sites were accounted for at fair value and included as part of non-current assets of the financial statements of the joint venture at 31 December 2008.

The share of translation reserve relates to foreign currency translation gains on translating the net assets of the joint venture to GBP. The underlying assets and liabilities of the joint venture are denominated in CNY which recorded a 47% increase against GBP (the Group's presentation currency) during the year.

## 12. DEFERRED TAX ASSETS AND LIABILITIES

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

Group	Assets 2008 £'000	Liabilities 2008 £'000
Pre-operating expenses	155	-
Fair value change in investment properties	-	(126,603)
Fair value change in properties under development	228	(26,555)
Fair value change in financial derivatives	429	-
Deductible tax loss	<u>324</u>	-
Deferred tax assets /(liabilities)	<u>1,136</u>	<u>(153,158)</u>

The PRC income tax rate of 25% would be charged if the Group decided to realise its investment properties and properties under development at the year end valuations through the sale of the underlying assets after the year end. Apart from the deferred tax liability that arises on revaluation gains, deferred tax assets are also recognised in relation to derivatives and losses carried forward within the individual PRC entities.

### Deferred tax liabilities

	2008 £'000	2007 £'000
Balance at 1 January 2008 /5 December 2006	(92,835)	-
Acquisition through business combinations	-	(65,182)
Recognition of deferred tax liabilities	(12,786)	(23,817)
Foreign currency adjustments	<u>(47,537)</u>	<u>(3,836)</u>
Balance at 31 December	<u>(153,158)</u>	<u>(92,835)</u>

## 12. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

### Deferred tax assets

	2008 £'000	2007 £'000
Balance at 1 January 2008/5 December 2006	254	-
Acquisition through business combinations	-	156
Recognition of deferred tax assets	707	153
Foreign currency adjustments	290	-
Realisation for the year/period	<u>(115)</u>	<u>(55)</u>
Balance at 31 December	<u>1,136</u>	<u>254</u>

### Unrecognised deferred tax liability

Pursuant to the new PRC Corporate Income Tax Law which took effect from 1 January 2008, a 10% withholding tax was levied on dividends declared to foreign enterprise investors. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign enterprise investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the PRC tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 determined based on the relevant PRC tax laws and regulations are exempted from the withholding tax.

As at 31 December 2008, no deferred withholding tax is accrued for as in the opinion of the directors of the Company, the Group expects not to pay dividends out of the recognised but undistributed profits of the Group's PRC subsidiaries for the year 2008 within the next twelve months.

### Unrecognised deferred tax assets

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

	2008 £'000	2007 £'000
Tax losses	<u>217</u>	<u>98</u>

Deferred tax assets have not been recognised in respect of this item because it is not probable that future taxable profits will be available against which the Group can utilise the benefits in the future. These tax losses were mainly arising from subsidiaries of the Company in the PRC.

## 12. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

### Movement in unrecognised deferred tax assets during the year

	Tax Losses	
	2008 £'000	2007 £'000
Balance at 1 January 2008/5 December 2006	98	-
Additions	138	98
Foreign currency adjustments	62	-
Recognition	<u>(81)</u>	-
Balance at 31 December	<u>217</u>	<u>98</u>

### Company

There are no deferred tax assets or liabilities included in the Company's balance sheet at 31 December 2008.

## 13. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
LuxChina Property Development Company Limited	14,117	5,998	2,567	-
Investment in RREEF China Commercial Trust	7,803	7,803	-	-
Investment in SJM Investments	<u>940</u>	<u>940</u>	-	-
	<u>22,860</u>	<u>14,741</u>	<u>2,567</u>	-

### *LuxChina Property Development Company Limited*

At 31 December 2008 the Group holds a 9.75% equity interest in LuxChina Property Development Company Limited, a property investment company located in the PRC. The increase in the balance is a result of additional capital injected by the Group in 2008.

### 13. FINANCIAL ASSETS AVAILABLE-FOR-SALE (CONTINUED)

#### *RREEF China Commercial Trust*

In November 2008 the Company acquired 33.5 million units (7.21%) in RREEF China Commercial Trust ("RREEF CCT"), a Hong Kong listed Real Estate Investment Trust ("REIT"), at an average price of HKD 2.58 per unit, through on-market purchases.

RREEF CCT was listed on the Main Board of the Stock Exchange of Hong Kong Limited ("HKSE") on 22 June 2007 and currently owns an international grade A office and retail complex in the Chaoyang District of Beijing. The property, Beijing Gateway Plaza, is a commercial real estate asset of approximately 130,000 square metres. RREEF CCT is managed by RREEF China REIT Management Limited, which is owned by RREEF Alternative Investments through Deutsche Bank Asia Pacific.

The investment units are carried at fair value at 31 December 2008 which has been assessed as the bid price of the units (HKD 2.64) at the 31 December 2008 market close.

Also in November 2008 the Company entered into a call option agreement to acquire a 25.65% stake or 119,043,500 units in RREEF CCT, with an option to exercise on 12 January 2009 at a cost of HKD 387 million (£33.6 million). The directors decided not to exercise the option and the cost of the option of £1.5 million (Note 4) was fully written off at the year end.

#### *SJM Holdings Limited*

In July 2008 the Company purchased 6.3 million shares at HKD 3.08 each in SJM Holdings Limited ("SJM") as part of SJM's initial public offering on HKSE. SJM is a holding company whose principal asset is the controlling interest in Sociedade de Jogos de Macau SA. The share investment is carried at fair value at 31 December 2008 which has been assessed as the bid price of the shares (HKD 1.69) at the year end market close.

#### 14. TRADE AND OTHER RECEIVABLES

	<b>2008 Group £'000</b>	<b>2008 Company £'000</b>	<b>2007 Group £'000</b>	<b>2007 Company £'000</b>
<u>Due within one year</u>				
Trade receivables due from third parties	463	-	511	-
Trade receivables due from related parties	42	-	4,798	-
Prepayments	1,784	-	1,874	-
Non-trade receivables	1,832	9	791	-
Bank deposit interest receivable	1	-	80	50
Derivative financial instruments	5,133	5,133	205	205
Refundable deposit	-	-	<u>3,283</u>	<u>3,283</u>
	<u>9,255</u>	<u>5,142</u>	<u>11,542</u>	<u>3,538</u>

At 31 December 2008, trade receivables due from related parties represents rent receivables due from THCL.

Derivative financial instruments represent the fair value of a currency swap held by the Company at the year end.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

#### 15. TOTAL CASH BALANCES

	<b>2008 Group £'000</b>	<b>2008 Company £'000</b>	<b>2007 Group £'000</b>	<b>2007 Company £'000</b>
Bank balances	42,820	10,097	39,715	335
Call deposits	<u>23,820</u>	<u>353</u>	<u>39,495</u>	<u>39,493</u>
Cash and cash equivalents	66,640	10,450	79,210	39,828
	-----	-----	-----	-----
Restricted cash	18,356	-	17,786	-
	-----	-----	-----	-----
Total cash	<u>84,996</u>	<u>10,450</u>	<u>96,996</u>	<u>39,828</u>

The cash balance of £85 million at 31 December 2008 includes restricted cash of £18.4 million. The restricted cash relates to funds deposited in interest reserve accounts to repay borrowings as they become due.

CNY is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

## 16. CAPITAL AND RESERVES

### Reconciliation of movement in Group capital and reserves

Group	Stated capital account £'000	Translation reserve £'000	Revaluation reserve £'000	Share-based payments reserve £'000	Fair value reserve £'000	PRC statutory reserve £'000	Retained earnings/ (Accumulated losses) £'000	Total £'000
Balance at 5 December 2006	-	-	-	-	-	-	-	-
Profit for the period to 31 December 2007	-	-	-	-	-	-	41,099	41,099
Revaluation of properties under development								
- Group	-	-	23,914	-	-	-	-	23,914
- Group deferred tax	-	-	(5,781)	-	-	-	-	(5,781)
- Joint venture (Note 11)	-	-	4,924	-	-	-	-	4,924
Exchange translation differences	-	10,888	-	-	-	-	-	10,888
Issue of new shares	264,583	-	-	-	-	-	-	264,583
Purchase of own shares	(15,255)	-	-	-	-	-	-	(15,255)
Equity-settled share-based transactions	-	-	-	6,767	-	-	-	6,767
Share options exercised	<u>1,530</u>	=	=	<u>(1,360)</u>	=	=	=	<u>170</u>
<b>Balance at 31 December 2007</b>	<b><u>250,858</u></b>	<b><u>10,888</u></b>	<b><u>23,057</u></b>	<b><u>5,407</u></b>	<b>=</b>	<b>=</b>	<b><u>41,099</u></b>	<b><u>331,309</u></b>

## 16. CAPITAL AND RESERVES (CONTINUED)

Group	Stated capital account £'000	Translation reserve £'000	Revaluation reserve £'000	Share-based payments reserve £'000	Fair value reserve £'000	PRC statutory reserve £'000	Retained earnings/ (Accumulated losses) £'000	Total £'000
<b>Balance at 31 December 2007</b>	<b>250,858</b>	<b>10,888</b>	<b>23,057</b>	<b>5,407</b>	-	-	<b>41,099</b>	<b>331,309</b>
Loss for the year	-	-	-	-	-	-	(99,569)	(99,569)
Transfers	-	(316)	316	-	-	716	(716)	-
Revaluation of properties under development								
- Group	-	-	15,193	-	-	-	-	15,193
- Group deferred tax	-	-	(3,798)	-	-	-	-	(3,798)
- Joint venture (Note 11)	-	-	7,897	-	-	-	-	7,897
Revaluation of financial assets								
available-for-sale	-	-	-	-	383	-	-	383
Exchange translation differences	-	221,424	-	-	-	-	-	221,424
Issue of new shares	3,521	-	-	-	-	-	-	3,521
Purchase of own shares	(7,175)	-	-	-	-	-	-	(7,175)
Equity-settled share-based transactions	-	-	-	15,986	-	-	-	15,986
Share options exercised	<u>812</u>	-	-	<u>(722)</u>	-	-	-	<u>90</u>
<b>Balance at 31 December 2008</b>	<b><u>248,016</u></b>	<b><u>231,996</u></b>	<b><u>42,665</u></b>	<b><u>20,671</u></b>	<b><u>383</u></b>	<b><u>716</u></b>	<b><u>(59,186)</u></b>	<b><u>485,261</u></b>

## 16. CAPITAL AND RESERVES (CONTINUED)

### Stated capital account

The authorised share capital of the Company is unlimited. The issued share capital of the Company at 31 December 2008 is 47,703,038 ordinary shares of no par value (number of shares at 31 December 2007: 50,676,185 shares).

### Ordinary share capital in thousands of shares

Shares as at 5 December 2006	-
Issued to CREO SA	18,400
Issued for non-cash consideration	2,133
Issued through public offering	32,095
Options exercised	200
Share buyback	<u>(2,152)</u>
On issue at 31 December 2007 - fully paid	50,676
	-----
Options exercised	106
Issue of new shares	421
Shares buyback	<u>(3,500)</u>
	-----
On issue at 31 December 2008 - fully paid	<u>47,703</u>

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. A substantial part of the translation reserve in 2008 arose as a result of translating the financial statements of the PRC subsidiaries of the Company. The functional currency of these subsidiaries is CNY, which appreciated by 47% against GBP during the year.

### Revaluation reserve

The revaluation reserve relates to properties under development and an investment in a joint venture.

### Share-based payments reserve

The share-based payments reserve represents the fair value amount in respect of the outstanding options that have been charged through the income statement and the fair value of the performance fee that is required to be settled in equity to the investment manager in accordance with the investment advisory agreement. There were 106,200 options exercised during the year at an exercise price of £0.85.

### Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets.

## 16. CAPITAL AND RESERVES (CONTINUED)

### PRC statutory reserve

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors. These PRC entities are required to transfer at least 10% of their profit after taxation, as determined under accounting principles generally accepted in the PRC to the reserve fund until the balance of such reserve fund is equal to 50% of the registered capital. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distribution of dividends to the equity holders.

### Dividends

Dividends have not been provided for and there are no income tax consequences.

### Reconciliation of movements in the Company's reserves

Company	Stated capital account £'000	Share- based payments reserve £'000	Fair value reserve £'000	Accumu- lated losses £'000 Restated	Total £'000
Balance at 5 December 2006	-	-	-	-	-
Issue of new shares	264,583	-	-	-	264,583
Loss for the period	-	-	-	(13,031)	(13,031)
Purchase of own shares	(15,255)	-	-	-	(15,255)
Equity-settled share-based transactions	-	6,767	-	-	6,767
Share options exercised	<u>1,530</u>	<u>(1,360)</u>	-	-	<u>170</u>
<b>Balance at 31 December 2007</b>	<b>250,858</b>	<b>5,407</b>	<b>-</b>	<b>(13,031)</b>	<b>243,234</b>
Loss for the year	-	-	-	(52,611)	(52,611)
Revaluation of financial assets available-for-sale	-	-	383	-	383
Issue of new shares	3,521	-	-	-	3,521
Purchase of own shares	(7,175)	-	-	-	(7,175)
Equity-settled share-based transactions	-	15,986	-	-	15,986
Share options exercised	<u>812</u>	<u>(722)</u>	-	-	<u>90</u>
<b>Balance at 31 December 2008</b>	<b><u>248,016</u></b>	<b><u>20,671</u></b>	<b><u>383</u></b>	<b><u>(65,642)</u></b>	<b><u>203,428</u></b>

## 16. CAPITAL AND RESERVES (CONTINUED)

### Capital management

The Group's objectives when managing capital are:

- (i) to safeguard the entity's ability to continue as a going concern;
- (ii) to grow the assets of the Group and create value for investors; and
- (iii) to maintain significant financial resources to mitigate against financial risk and ensure any liquidity risk is minimised.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Group's capital which it manages is made up of stated capital and reserves as set out above along with the movements in the period. There are no externally imposed capital requirements for the Group. The liquidity risk to the Group is set out in Note 24(b).

## 17. SHARE OPTIONS

Options in respect of 530,000 ordinary shares have been granted to certain THCL management pursuant to the terms of the Share Option Scheme. Of this total, 30,000 ordinary shares were granted on 24 January 2008 at an exercise price of £8.065. These options are exercisable two years following the date of grant. The remaining 500,000 options were granted on 10 September 2008 at an exercise price of £6.35 and are exercisable five years following the date of grant.

A further 106,200 options at an exercise price of £0.85 were exercised in 2008. During the year, 10,000 of these options at £0.85 lapsed while also in 2008 a further 83,000 of options at £7.56 also lapsed. Accordingly 783,800 of these options at an exercise price of £0.85 and 864,000 options previously granted at an exercise price of £7.56 remain unexercised at 31 December 2008.

The fair value of all options have been valued at the date of grant by an independent third party using the binominal option pricing model. The inputs into the model were as follows:

<b>Options granted by strike price</b>	<b>£0.85</b>	<b>£7.56</b>	<b>£8.065</b>	<b>£6.35</b>
Number of Options	1,100,000	1,002,000	30,000	500,000
Expected volatility	22.02%	22.21%	21.87%	53.89%
Expected life	4.5	4.5	4.5	6
Risk free rate	5.16%	5.50%	4.33%	4.47%
Earliest exercise date	01.02.2008	11.07.2009	25.01.2010	10.09.2013
Expiry date	31.01.2013	10.07.2014	24.01.2015	09.09.2015

## 17. SHARE OPTIONS (CONTINUED)

The total share options outstanding at 31 December 2008 are summarised as follows:

	No. of Options	Exercise Price £
Outstanding at 31 December 2007	900,000	0.85
Outstanding at 31 December 2007	<u>947,000</u>	7.56
	1,847,000	
Granted		
- 24 January 2008	30,000	8.065
- 10 September 2008	500,000	6.35
Exercised		
- 28 March 2008	(85,000)	0.85
- 2 April 2008	(1,200)	0.85
- 19 September 2008	(20,000)	0.85
Expired during 2008	(10,000)	0.85
Expired during 2008	<u>(83,000)</u>	7.56
Outstanding at 31 December 2008	<u>2,177,800</u>	£0.85-£8.065
Exercisable balance at 31 December 2008	<u>783,800</u>	£0.85

During 2008 the Company recognised compensation expense of £2.2 million relating to the equity-settled share-based awards. The fair value of share-based payment awards is expensed over the requisite service period, together with a corresponding increase in share-based payments reserve in equity.

The estimated grant date fair value of the four tranches of share options granted was as follows:

	Number of Options Granted	Estimated Grant Date Fair Value £'000	Expensed in 2008 £'000
Options granted 25 April 2007	1,100,000	7,480	1,156
Options granted 11 July 2007	1,002,000	2,164	888
Options granted 24 January 2008	30,000	63	32
Options granted 10 September 2008	<u>500,000</u>	<u>1,765</u>	<u>118</u>
	<u>2,632,000</u>	<u>11,472</u>	<u>2,194</u>

The options outstanding at 31 December 2008 have a weighted average maximum contractual life of 5.27 years.

The weighted average share price at the date of exercise for share options exercised in 2008 was £7.67 (2007: £6.95).

## 18. NET ASSET VALUE PER SHARE

The net asset value (NAV) per share as at 31 December 2008 was as follows:

<b>Group</b>	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Net assets attributable to shareholders at 31 December	485,261	331,309
Proceeds from exercise of share options	<u>10,615</u>	<u>7,924</u>
Adjusted net assets	<u>495,876</u>	<u>339,233</u>
<b>Number of shares in issue:</b>	<b>2008</b>	<b>2007</b>
Ordinary shares - basic	47,703,038	50,676,185
Ordinary shares - diluted	49,880,838	52,523,185
The dilution effect for 2008 above assumes 783,800 options at the strike price of £0.85, 864,000 options at a strike price of £7.56, 30,000 options at a strike price of £8.065 and 500,000 options at a strike price of £6.35 are exercised.		
<b>Net asset value per ordinary share:</b>		
- basic	£10.17	£6.54
- diluted	£9.94	£6.46
<b>Diluted EPRA net asset value per share</b>		
	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Adjusted net assets per above	495,876	339,233
Fair value of financial instruments	12,120	5,927
Deferred tax	<u>152,501</u>	<u>92,682</u>
	<u>660,497</u>	<u>437,842</u>
<b>Ordinary shares - diluted</b>	49,880,838	52,523,185
<b>Diluted EPRA NAV per share</b>	<b>£13.24</b>	<b>£8.34</b>

The diluted EPRA NAV per share excludes the mark to market of financial instruments which are economically effective hedges and deferred taxation on revaluations on investment properties and properties under development and financial instruments, and is calculated on a fully diluted basis.

## 18. NET ASSET VALUE PER SHARE (CONTINUED)

<b>Company</b>	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
<b>Net assets attributable to shareholders</b>		
at 31 December	203,428	243,234
Proceeds from exercise of share options	<u>N/A</u>	<u>7,924</u>
<b>Adjusted net assets</b>	<b><u>N/A</u></b>	<b><u>251,158</u></b>
<b>Number of shares in issue:</b>	<b>2008</b>	<b>2007</b>
Ordinary shares – basic	47,703,038	50,676,185
Ordinary shares – diluted	N/A	52,523,185
<b>Net asset value per ordinary share:</b>		
- basic	£4.26	£4.80
- diluted	N/A	£4.78

Diluted net asset value per ordinary share for the year ended 31 December 2008 has not been disclosed, as the share options outstanding during the year do not have dilutive effect on the net assets of the Company for the year.

## 19. INTEREST BEARING LOANS AND BORROWINGS

The carrying value of Group loans is set out below. For more information about the Group's exposure to interest rate risk and currency risk, see Note 24.

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Bank borrowings - secured	(345,356)	(248,574)
Less: Loan issue costs	<u>1,276</u>	<u>1,939</u>
	(344,080)	(246,635)
	-----	-----
<b>Long-term loans</b>		
<u>Principal</u>		
Balance at 1 January 2008 / 5 December 2006	(248,574)	-
Additions	-	(248,574)
Foreign currency adjustments	<u>(96,782)</u>	-
Balance at 31 December	(345,356)	(248,574)
	-----	-----
<u>Issue costs</u>		
Balance at 1 January 2008 / 5 December 2006	1,939	-
Additions	-	2,308
Amortisation	<u>(663)</u>	<u>(369)</u>
Balance at 31 December	<u>1,276</u>	<u>1,939</u>

The secured bank loans borrowed within the PRC as at 31 December 2008 were secured by the Group's investment properties with a total carrying amount of £764 million (Note 8). The secured bank loans borrowed outside of the PRC as at 31 December 2008 were secured by the equity interests of certain subsidiaries of the Company.

There were no loans repaid or refinanced in the year 2008. The maturity dates of the existing loans remain unchanged.

The bank loans and borrowings are denominated in CNY, USD and EUR and the foreign currency adjustments arose as a result of the depreciation of GBP against those currencies.

## 20. TRADE AND OTHER PAYABLES

	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<u>Due within one year</u>				
Payables due to related parties	(34,846)	(34,846)	(3)	-
Trade payables	(1,839)	(15)	(8,096)	(70)
Advance from customers	(480)	-	(266)	-
Other taxes payable	(5,426)	-	(1,855)	-
Non-trade payables	(19,194)	(304)	(12,492)	-
Accrued expenses	(5,939)	(1,136)	(8,720)	(6,571)
Derivative financial instruments	(17,253)	-	(6,132)	-
Payable on share buybacks	(5,125)	(5,125)	-	-
Due from subsidiary	-	<u>(14,694)</u>	-	<u>(10,200)</u>
	<u>(90,102)</u>	<u>(56,120)</u>	<u>(37,564)</u>	<u>(16,841)</u>

Payables due to related parties at the year end include the £29.98 million cash component of the performance fees and management fees of £3.8 million due to THCL and accounting services fees of £37,500 due to Treasury Holdings.

Trade payables are interest free and are due within one year. The directors consider that the carrying amount of trade and other payables approximate their fair value.

The derivative financial instruments relates to the fair value of floating to fixed rate swaps on onshore and offshore floating rate debts. The fair value represents the net present value of the difference between the cash flows at the contracted rates and the interest rates prevailing at the reporting date as at 31 December 2008.

## 21. TAX PAYABLE

	<b>2008</b>	<b>2007</b>
	<b>Group</b>	<b>Group</b>
	<b>£'000</b>	<b>£'000</b>
Land appreciation tax payable	-	(9,192)
Income tax payable	<u>(214)</u>	<u>(308)</u>
	<u>(214)</u>	<u>(9,500)</u>

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 land use right costs, borrowing costs and all property development expenditures.

## 22. OPERATING LEASES – LEASES AS LESSOR

The Group leases out its investment properties under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Less than one year	24,518	-	12,762	-
Between one and five years	15,750	-	11,933	-
More than five years	<u>641</u>	-	<u>1,506</u>	-
	<u>40,909</u>	=	<u>26,201</u>	=

## 23. CAPITAL COMMITMENTS

### *Construction and refurbishment*

In 2008, the Group entered into contracts to develop or refurbish the properties under development and the investment properties respectively. At 31 December 2008, the commitment under those contracts amounted to £3.0 million (2007: £1.7 million).

### *Qingdao Shangshi CREO Real Estate Company Limited*

In connection with its joint venture company, Qingdao Shangshi CREO Real Estate Company Limited, the Company has agreed together with the joint venture partner to increase the total share capital from CNY 500 million to CNY 1.1 billion.

### *Deferred Consideration for City Centre Phase 3*

As part of the June 2007 share purchase agreement for the City Centre property, a potential liability for an amount of £14 million, less certain related costs incurred, is payable to the vendor upon the granting of various regulatory approvals required for a substantial expansion of floor areas of one of the phases of the property. As at 31 December 2008, the regulatory approvals had not been obtained. The anticipated expansion of the floor area of the property has been valued by CB Richard Ellis at 31 December 2008 at £31.5 million.

## 24. FINANCIAL INSTRUMENTS

### (a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer, or counterparty to a financial instrument, fails to meet its contractual obligations. The majority of the Group's financial assets consists primarily of its cash and cash equivalents and trade and other receivables.

#### Cash and cash equivalents

The Group limits its exposure to credit risk on its investments by only investing surplus funds with approved financial institutions with credit ratings of "A" or equivalent. No more than 15% of cash and liquid resources is invested with any one counterparty bank. The treasury management policy of the Group is to hold no more than 10% of cash on deposit with any one bank not covered by a National Government bank guarantee scheme.

#### Trade and other receivables

Trade receivables relate mainly to the Group's tenants. The Group's exposure to credit risk is influenced by the individual characteristics of each tenant. Customers are grouped according to their trade/business e.g. retail, office, mixed use, residential. Receivables are reviewed monthly. There are no significant concentrations of credit risk with a single customer as the Group has a large number of quality tenants who pay their rentals in advance and some properties are rented subject to deposits, so that in the event of non-payment the Group has recourse to this deposit.

Included in other receivables are derivative financial instruments of £5.1 million (2007: £0.2 million). The credit exposure from these derivative financial instruments is combined with cash and cash equivalents in determining gross credit exposure to a single counterparty.

The maximum exposure to credit risk at 31 December 2008 was:

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	66,640	79,210
Restricted cash	18,356	17,786
Short term receivables	<u>2,338</u>	<u>9,463</u>
Total financial assets	<u>87,334</u>	<u>106,459</u>

#### Impairment Losses

No impairment losses were recognised in the year ended 31 December 2008.

#### Guarantees

At 31 December 2008 no guarantees were outstanding.

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach is to ensure as far as possible that it will always have sufficient liquidity (cash and liquid resources) to meet its liabilities. As at 31 December 2008, the Group maintained cash balances of approximately £85 million, including restricted cash balance of £18 million, at the year end which were mainly held on short-term deposits and which earned interest at the prevailing variable market rates.

The liquidity risk is minimised as a majority of the Group's liabilities comprise bank debts maturing after 2009. Short term flexibility is achieved from cash balances.

<b>Maturity profile of liabilities</b>	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
In one year or less, or on demand	92,326	48,719
In more than one but not more than two years	290,706	19,142
In more than two but not more than five years	75,314	210,382
In more than five years	-	<u>55,565</u>
	<u>458,346</u>	<u>333,808</u>

#### Debts repayment schedule as at 31 December 2008

	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	> 5 Years £'000	Total £'000
CNY loans effectively fixed at 7.5%	730	9,913	-	-	-	-	10,643
USD loans effectively fixed at between 5.9% to 7.6%	17,099	175,919	75,314	-	-	-	268,332
EUR loans with interest rate fixed swap at 6.6%	1,185	18,203	-	-	-	-	19,388
CNY denominated bank borrowings	5,889	86,671	-	-	-	-	92,560
Trade and other payables	<u>67,423</u>	-	-	-	-	-	<u>67,423</u>
	<u>92,326</u>	<u>290,706</u>	<u>75,314</u>	-	-	-	<u>458,346</u>

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Liquidity risk (continued)

#### Debts repayment schedule as at 31 December 2007

	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000	> 5 Years £'000	Total £'000
CNY loans effectively fixed at 7.5%	496	496	6,740	-	-	-	7,732
USD loans effectively fixed at between 5.9% to 7.6%	12,616	12,616	129,789	55,565	-	-	210,586
EUR loans with interest rate fixed swap at 6.6%	918	918	14,092	-	-	-	15,928
CNY denominated bank borrowings	5,112	5,112	59,761	-	-	-	69,985
Trade and other payables	<u>29,577</u>	-	-	-	-	-	<u>29,577</u>
	<u>48,719</u>	<u>19,142</u>	<u>210,382</u>	<u>55,565</u>	=	=	<u>333,808</u>

The interest rate derivatives associated with the Group's variable rate long term debts outstanding at 31 December 2008 were:

Interest rate swaps	2009	2010	2011	2012	2013	> 5 Years	Total
Variable to fixed average interest rate	-	7.5%	6.6%	-	-	-	7.2%

The interest rate derivatives associated with the Group's variable rate long term debts outstanding at 31 December 2007 were:

Interest rate swaps	2008	2009	2010	2011	2012	> 5 Years	Total
Variable to fixed average interest rate	-	-	7.5%	6.6%	-	-	7.2%

### (c) Currency risk

Currency translation exposure results when the Group translates a foreign currency subsidiary financial data to its functional currency for consolidated financial reporting.

The Group has seven significant overseas subsidiary and joint venture undertakings in the PRC and four holding companies in Hong Kong. The assets, liabilities, revenues and expenses of the PRC subsidiaries are denominated in CNY and the Hong Kong subsidiaries in HKD. The investments in the PRC subsidiaries are financed, predominantly in USD and EUR as the CNY is a controlled currency. The Group's balance sheet can be significantly affected by movements in the CNY/USD and CNY/EUR exchange rates on the net assets of the PRC subsidiaries.

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Currency risk (continued)

The CNY is not an openly traded currency so much of the Group's cash exposure is to the USD. The Group has therefore entered into a USD call / CNY put warrant to hedge against a potential weakening of the USD against the CNY.

The Group is also exposed to movements in the CNY denominated foreign currency subsidiary balances against the GBP, which is the presentation currency adopted by the Group.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

GBP '000	CNY	USD	HKD	EUR
Cash and cash equivalents	-	28,305	3,387	8,456
Restricted cash	-	11,903	-	800
Trade and other receivables	-	39,039	210,189	14,947
Foreign currency derivative	5,133	5,133	-	-
Financial assets available-for-sale	-	-	8,744	-
Interest –bearing loans and borrowings	-	(235,156)	-	(17,906)
Trade and other payables	-	<u>(43,785)</u>	<u>(37,892)</u>	<u>(14,694)</u>
Net exposure	<u>5,133</u>	<u>(194,561)</u>	<u>184,428</u>	<u>(8,397)</u>

The following significant exchange rates against the GBP £ applied during the year:

	Average rate 2008	Reporting date mid spot rate 2008
<b>CNY</b>	12.84	9.97
<b>HKD</b>	14.38	11.32
<b>USD</b>	1.85	1.46
<b>EUR</b>	1.26	1.05

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Currency risk (continued)

#### Sensitivity analysis

The following table indicates the instantaneous increase/(decrease) in the Group's loss after tax (and accumulated losses) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

#### The Group

	Increase/ (decrease)in exchange rate	Effect on loss after tax and accumulated losses GBP '000	Effect on other components of equity GBP '000
GBP	10%	18,937	(20,330)
	(10%)	(18,937)	20,330
CNY	10%	(1,288)	6,078
	(10%)	1,288	(6,078)
USD	10%	(15,231)	(827)
	(10%)	15,231	827
HKD	10%	(241)	15,053
	(10%)	241	(15,053)
EUR	10%	(840)	-
	(10%)	840	-

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss/profit after tax and equity measured in the respective functional currencies, translated into GBP at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency.

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Interest rate risk

The Group finances its operations through a mixture of retained earnings, interest bearing loans and borrowings and stated capital. The Group borrows in the desired currencies at both fixed and floating rates and uses interest rate instruments to generate the desired interest rate profile and to manage the Group's exposure to interest rate fluctuations. At the year end 76% of the Group's financial liabilities were at effective fixed rates as a result of certain interest rate swap arrangements and the remainder were at floating rates of interest. The Group's cash balances are primarily at floating rates based on the appropriate Euro Interbank Offered rates (EURIBOR) or London Interbank Offered rates (LIBOR).

	<b>Floating rate £'000</b>	<b>Fixed rate £'000</b>	<b>Non- interest bearing £'000</b>	<b>Total £'000</b>
<b>Interest rate profile as at 31 December 2008</b>				
<u>Assets</u>				
Cash and liquid assets	66,640	-	-	66,640
Restricted cash	18,356	-	-	18,356
Short term receivables	-	-	<u>2,338</u>	<u>2,338</u>
	84,996	-	2,338	87,334
	-----	-----	-----	-----
<u>Liabilities</u>				
CNY denominated bank borrowings	(82,255)	-	-	(82,255)
CNY loans fixed at 7.5%	-	(9,730)	-	(9,730)
USD bank loans effectively fixed at between 5.9% to 7.6%	-	(235,465)	-	(235,465)
EUR loans fixed at 6.6%	-	(17,906)	-	(17,906)
Trade and other payables	-	-	<u>(67,423)</u>	<u>(67,423)</u>
	(82,255)	(263,101)	(67,423)	(412,779)
	-----	-----	-----	-----
Net assets/(liabilities)	<u>2,741</u>	<u>(263,101)</u>	<u>(65,085)</u>	<u>(325,445)</u>
Weighted average interest rate of the fixed rate financial liabilities				
				7.2%
Weighted average period for which interest rates on the fixed financial liabilities are fixed (years)				
				2

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

### (e) Fair values

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities:

Primary financial instruments held or issued to finance the Group's operation	2008		2007	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Fixed rate debts	(27,636)	(28,040)	(20,308)	(20,390)
Variable rate debts	(82,255)	(82,255)	(57,120)	(57,120)
Variable rate debts fixed with interest rate swaps	(235,465)	(235,465)	(171,146)	(171,146)
Trade and other payables	(67,423)	(67,423)	(29,577)	(29,577)
Cash and cash equivalents	66,640	66,640	79,210	79,210
Restricted cash	18,356	18,356	17,786	17,786
Short term receivables	2,338	2,338	9,463	9,463
Financial assets available-for-sale	22,860	22,860	14,741	14,741
<b>Financial instruments held to manage</b>				
Interest rate derivative contracts	(12,120)	(12,120)	(5,927)	(5,927)
	<u>(314,705)</u>	<u>(315,109)</u>	<u>(162,878)</u>	<u>(162,960)</u>

Cash and liquid resources and other financial assets have fair values that approximate to their carrying amounts because of their short term nature. The fair values of bank and other loans are based on the net present value of the anticipated future cash flows associated with these instruments. Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables. The carrying values approximate to their fair values because of the short maturities of these instruments.
- (ii) Interest-bearing loans  
The carrying amount of bank loans approximate to their fair value based on the borrowing rate currently available for bank loans with similar terms and maturity.

## **24. FINANCIAL INSTRUMENTS (CONTINUED)**

### **(e) Fair values (continued)**

#### **(iii) Financial derivatives**

The Group selects appropriate valuation methods and makes assumptions with reference to market conditions existing at each balance sheet date, to determine the fair value of those financial derivatives.

## **25. RELATED PARTIES**

Treasury Holdings, the ultimate parent of THCL, through its direct and indirect holdings in the Company and that of its concert parties, had an equity interest of not less than 50% of the paid-up share capital of the Company at the year end. Treasury Holdings had common control over both the Company and THCL at the year end.

In accordance with the agreements with THCL and Treasury Holdings, the Company incurred and accrued the following fees in the 12 months ended 31 December 2008:

### **(a) Investment advisory agreement with THCL**

The Company and THCL entered into an investment advisory agreement dated 25 June 2007 pursuant to which THCL is responsible for the provision of investment advisory services for the Company's property assets and, at the discretion of the Company, development management and project management services. The agreement is for an initial period of three years from its July 2007 admission to AIM and will continue thereafter until terminated by the Company on 12 months' written notice provided that the agreement may be terminated by either party on shorter notice in the event of, inter alia, breach of contract or insolvency. Under the agreement, THCL received the following fees in 2008:

- (i) Investment management fees of £5.29 million (2007: £2.39 million).
- (ii) Development management fees of £2.46 million (2007: £1.03 million).
- (iii) Performance fee accrual for the year of £43.77 million (2007: £3.59 million).

In accordance with the investment advisory agreement, THCL shall receive 50% (or such higher percentage as the investment manager may elect) of the value of the performance fee in the form of allotted and issued ordinary shares in the Company ("Performance Fee Shares"). The number of Performance Fee Shares to be issued shall be calculated by dividing the amount of the performance fee to be satisfied by the Performance Fee Shares by the net asset value per share of the Group at the year end.

The 2008 performance fee charge of £43.77 million, calculated according to the investment advisory agreement, is based on annual increases in the net asset value per ordinary share before charging of the performance fee. The 2008 fee comprises of a cash component of £29.98 million and an equity component, which would be discharged with the issue of 2.26 million Performance Fee Shares. The fair value of the Performance Fee Shares is assessed at £13.79 million, using the average market price of the Company's shares during the year.

## **25. RELATED PARTIES (CONTINUED)**

### **(a) Investment advisory agreement with THCL (continued)**

At 31 December 2007 the calculation of the 2007 performance fee was based on the movement in the adjusted NAV. Since 2008, all calculations are benchmarked with the performance of the Group as assessed on an EPRA NAV basis.

### **(b) Property management agreement with TSREC**

The Company originally entered into a property management agreement with TSREC dated 25 June 2007 pursuant to which TSREC was appointed to be responsible for the provision of property management services for the Company's property assets. In December 2008 this agreement was novated from TSREC to Treasury Holdings (Shanghai) Property Management Company Limited. The novated agreement is for the same initial period of three years and automatically renewable for periods of 12 months unless the Company terminates on six months' notice. Each party may terminate earlier in the event of, inter alia, breach of contract or insolvency. Treasury Holdings (Shanghai) Property Management Company Limited is entitled to receive a property management fee equal to 110% per annum of certain defined expenses it incurs in providing the property management services during each period of 12 months. The fees incurred for under this agreement were £0.77 million in 2008.

### **(c) Accounting services agreement with Treasury Holdings**

Fees of £150,000 in accounting services fees were incurred during the year and are payable to Treasury Holdings in accordance with the accounting services agreement dated 25 June 2007 pursuant to which Treasury Holdings provides certain accounting administrative services to the Group.

### **(d) Rental income from Treasury Holdings (Shanghai) Property Management Company Limited**

Rental incomes of £0.36 million were incurred during the year and are receivable from Treasury Holdings (Shanghai) Property Management Company Limited in accordance with the rental services agreement.

## 26. GROUP ENTITIES

A list of the Company's significant subsidiaries and joint venture is set out below:

Subsidiaries	Country of incorporation	2008	
		Direct %	Indirect %
• Grand Eastern Limited	British Virgin Islands	100	
• CREO (Shanghai Central Plaza) Limited	Jersey	100	
• CREO (Shanghai City Centre) Limited	Jersey	100	
• CREO (Pudong) Limited	Jersey	100	
• Dream Land Properties Limited	Jersey	100	
• CREO (Qingdao) Warehousing Limited	Jersey	100	
• CREO XIDAN (NO.1) Limited	Jersey	100	
• CREO NJ (I) Limited	Jersey	100	
• CREO Finance I Limited	Jersey	100	
• CREO Silver Tower Limited	Jersey		100
• Central Land Estate Limited	Hong Kong		100
• Brightime Limited	Hong Kong		100
• State Properties Limited	Hong Kong		100
• Oakman Dean Limited	Hong Kong		100
• CREO NJ (I) Limited	Hong Kong		100
• Glory Achieve Limited	Hong Kong		100
• Fine Run Holdings Limited	Hong Kong		100
• Image Lead Group Limited	Hong Kong		100
• Will Win Holdings Limited	Hong Kong		100
• Shanghai Vision Honest Real Estate Development Company Limited	People's Republic of China		100
• Shanghai Central Land Estate Company Limited	People's Republic of China		100
• Shanghai Hua Tian Property Development Company Limited	People's Republic of China		100
• Qingdao CREO Logistics Park Company Limited	People's Republic of China		100
• Beijing Dream Land Industrial Development Company Limited	People's Republic of China		100
• Beijing Treasury Industrial Development Company Limited	People's Republic of China		100
<b>Joint venture</b>			
• Qingdao Shangshi CREO Real Estate Company Limited	People's Republic of China		50

## **27. ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance.

The Company 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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### **Property valuations**

The fair value of each investment property and property under development individually is determined at each balance sheet date by independent valuers based on market value for existing use basis using a combination of methodologies, namely Direct Comparison, Discounted Cash Flow and Residual Approach. These methodologies are based upon estimates of future results and a set of assumptions as to income and expenses of the property and future economic conditions. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

In addition, in arriving at the market values, the independent valuers have assumed, inter alia, that legal titles to the properties are in place as of the respective property valuation date, notwithstanding that legal titles to land of City Center Phase 3 had not been granted as at 31 December 2008.

### **Income taxes and deferred taxes**

Determining income tax provision, deferred tax liabilities and assets involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions, and tax provisions, deferred tax liabilities and assets are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

## **27. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

### **Share-based payments**

As the Company was admitted to trading on AIM in July 2007, it was not possible to ascertain the volatility of the Company shares in order to fair value the share-based payments granted to employees. Management therefore used a basket of peer companies with a similar asset and investor base in order to estimate the volatility of the share price of the Company for use in the binomial option pricing model (Note 17).

## **28. POST BALANCE SHEET EVENTS**

### ***RREEF China Commercial Trust***

On 12 January 2009 the Company decided not to exercise its option to acquire a 25.65% stake in RREEF CCT.

### ***Purchase of Own Shares***

On 14 January 2009 and 15 January 2009, the Company purchased for cancellation 100,000 and 340,000 of its own ordinary shares of no par value at a price of 205p per share and 211p per share respectively.

## **29. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the directors on 18 March 2009.