中國奧園地產集團股份有限公司

China Aoyuan Property Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3883)

ANNOUNCEMENT OF 2008 ANNUAL RESULTS

The board of directors (the "**Board**") of China Aoyuan Property Group Limited (the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2008, as follows:

CONSOLIDATED INCOME STATEMENT

	NOTES	2008 RMB'000	2007 RMB'000
Revenue	3	**619,941**	2,501,397
Cost of sales		**(597,164)**	(1,176,986)
Gross profit		**22,777**	1,324,411
Other income		**79,897**	105,243
Change in fair value of investment properties		**(34,558)**	20,964
Recognition of change in fair value of completed properties for sale upon transfer to investment properties		**88,437**	55,142
Selling and distribution costs		**(135,276)**	(71,102)
Administrative expenses		**(198,283)**	(148,794)
Change in fair value of embedded derivatives component of convertible notes		**76,145**	64,289
Other expenses		**—**	(29,056)
Loss on redemption of convertible notes		**—**	(86,266)
Finance costs	4	**(5,219)**	(30,616)
Gain on disposal of subsidiaries		**16,713**	—
Share of results of a jointly controlled entity		**45**	(232)
(Loss) profit before taxation	5	**(89,322)**	1,203,983
Income tax credit (expense)	6	**31,857**	(601,612)
(Loss) profit for the year		**(57,465)**	602,371

	NOTES	**2008**	2007
		RMB'000	*RMB'000*
(Loss) profit attributable to:			
Equity holders of the Company		**(57,153)**	602,401
Minority interests		**(312)**	(30)
		(57,465)	602,371
Dividend	*7*	**123,888**	—
(Loss) earnings per share (cents)			
Basic	*8*	**(2.54)**	36.04
Diluted		**(6.28)**	30.40

CONSOLIDATED BALANCE SHEET

	NOTES	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment		**148,646**	63,969
Prepaid lease payments		**18,652**	24,927
Investment properties		**439,890**	353,750
Interest in a jointly controlled entity		**326,804**	—
Amount due from a jointly controlled entity		**60,850**	—
Other property interests		**86,952**	—
Deferred taxation assets		**8,369**	5,939
		1,090,163	448,585
Current assets			
Inventories		**—**	12
Properties for sales		**4,530,096**	2,593,119
Other property interests		**—**	86,952
Trade and other receivables	*9*	**1,240,283**	2,299,322
Prepaid lease payments		**6,275**	6,275
Restricted bank deposits		**135,732**	148,246
Bank balances and cash		**1,345,861**	2,658,201
		7,258,247	7,792,127
Current liabilities			
Trade and other payables	*10*	**975,783**	823,913
Sales deposits		**244,208**	234,890
Taxation payable		**653,255**	641,367
Derivative financial instruments		**3,906**	80,051
Secured bank loans		**215,000**	74,912
		2,092,152	1,855,133
Net current assets		**5,166,095**	5,936,994
Total assets less current liabilities		**6,256,258**	6,385,579

	NOTES	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Secured bank loans		**999,687**	808,900
Deferred taxation liabilities		**63,053**	226,173
Convertible notes		**304,133**	306,400
		1,366,873	1,341,473
Net assets		**4,889,385**	5,044,106
Capital and reserves			
Share capital		**21,838**	21,838
Reserves		**4,857,722**	5,022,268
Equity attributable to equity holders of the Company		**4,879,560**	5,044,106
Minority interests		**9,825**	—
Total equity		**4,889,385**	5,044,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GROUP RESTRUCTURING AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company was incorporated on 6 March 2007 as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange since 9 October 2007. The addresses of the registered office and the principal place of business of the Company are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-111, Cayman Islands and Nanguo Aoyuan, Hanxi Road, Zhong Cun Town, Panyu, The People's Republic of China (the "PRC"), respectively.

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

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2007 have been prepared as if the Company has always been the holding company of the Group. On this basis, the results of the Group for the year ended 31 December 2007 includes the Group with effect from 1 January 2007 or since their respective date of incorporation or establishment where this is a shorter period.

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In the current year, the Group has applied the following amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board which are or have become effective.

IAS 39 & IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

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

IFRSs (Amendments)	Improvements to IFRSs May 2008[1]
IFRSs (Amendments)	Improvements to IFRSs April 2009[2]
IAS 1 (Revised)	Presentation of Financial Statements[3]
IAS 23 (Revised)	Borrowing Costs[3]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
IAS 39 (Amendment)	Eligible Hedged Items[4]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
IFRS 3 (Revised)	Business Combinations[4]
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[3]
IFRS 8	Operating Segments[3]
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives[5]
IFRIC 13	Customer Loyalty Programmes[6]
IFRIC 15	Agreements for the Construction of Real Estate[3]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[7]
IFRIC 17	Distributions of Non-cash Assets to Owners[4]
IFRIC 18	Transfers of Assets from Customers[8]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2009
4 Effective for annual periods beginning on or after 1 July 2009
5 Effective for annual periods ending on or after 30 June 2009
6 Effective for annual periods beginning on or after 1 July 2008
7 Effective for annual periods beginning on or after 1 October 2008
8 Effective for transfers on or after 1 July 2009

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

3. REVENUE

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

Principal activities are as follows:

Property development — developing and selling of properties in the PRC

Property investment — leasing of investment properties

Others — consulting services

Revenue and results

	Year ended 31 December 2008			
	Property development *RMB'000*	**Property investment** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Revenue	**609,015**	**9,525**	**1,401**	**619,941**
Segment results	**(79,916)**	**(25,758)**	**219**	**(105,455)**
Other income				**44,234**
Unallocated corporate expenses				**(115,785)**
Change in fair value of embedded derivatives component of convertible notes				**76,145**
Finance costs				**(5,219)**
Gain on disposal of subsidiaries				**16,713**
Share of result of a jointly controlled entity	**45**	**—**	**—**	**45**
Loss before taxation				**(89,322)**
Income tax credit				**31,857**
Loss for the year				**(57,465)**

	Year ended 31 December 2007			
	Property development	Property investment	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	2,488,270	8,469	4,658	2,501,397
Segment results	1,269,963	21,826	563	1,292,352
Other income				105,243
Unallocated corporate expenses				(140,787)
Change in fair value of embedded derivatives component of convertible notes				64,289
Finance costs				(30,616)
Share of results of jointly controlled entities				(232)
Loss on redemption of convertible notes				(86,266)
Profit before taxation				1,203,983
Income tax expense				(601,612)
Profit for the year				602,371

4. FINANCE COSTS

	2008	2007
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**(81,403)**	(40,076)
Interest on convertible notes	**(42,662)**	(108,075)
	(124,065)	(148,151)
Less: Amount capitalised in properties under development for sales	**118,846**	117,535
	(5,219)	(30,616)

Interest capitalised arose on the general borrowing pool of the Group were calculated by applying a capitalisation rate of approximately of 8.4% (2007: 11.3%) to expenditure on the qualifying assets.

5. (LOSS) PROFIT BEFORE TAXATION

	2008	2007
	RMB'000	*RMB'000*
(Loss) profit before taxation has been arrived at after charging (crediting):		
Staff costs including directors' emoluments	**84,950**	48,112
Retirement benefit scheme contributions	**932**	808
Total staff costs	**85,882**	48,920
Less: Amount capitalised in properties under development for sales	**(12,861)**	(5,755)
	73,021	43,165
Amortisation of prepaid lease payments	**6,275**	7,060
Auditor's remuneration	**2,700**	3,000
Depreciation of property, plant and equipment	**11,278**	3,967
Loss on disposal of property, plant and equipment	**360**	235
Net foreign exchange loss	**40,329**	49,207
Rental expenses in respect of rented premises under operating leases	**14,776**	6,208
Rental income in respect of investment properties under operating leases, less direct operating expenses from investment properties that generated rental income during the year of RMB725,000 (2007: RMB840,000)	**(8,800)**	(7,629)

6. INCOME TAX CREDIT (EXPENSE)

	2008	2007
	RMB'000	*RMB'000*
Income tax credit (expense) recognised comprises of:		
Enterprise Income Tax in the PRC — Current	**(181,319)**	(130,043)
Deferred taxation		
— Current year	**165,550**	(139,031)
— Attributable to change in tax rate	**—**	12,461
Land appreciation tax	**47,626**	(344,999)
Income tax credit (expense) for the year	**31,857**	(601,612)

The Group's PRC Enterprise Income Tax is calculated at 25% (2007: 33%) of the estimated assessable profit for the year. PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1 January 2008 onwards.

According to the New Law, starting from 1 January 2008, withholding income tax will be imposed on dividends relating to profits earned in year ended 31 December 2008 onwards to foreign investors for the companies established in the PRC. Deferred tax has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to the profits earned by the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

7. DIVIDEND

	2008	2007
	RMB'000	*RMB'000*
Dividend recognised as distribution during the year:		
Final dividend for 2007: RMB5.5 cents (2007: Nil) per share	**123,888**	—

8. (LOSS) EARNINGS PER SHARE

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

(Loss) earnings

	2008	2007
	RMB'000	*RMB'000*
(Loss) earning for the purposes of basic (loss) earnings per share, being (loss) profit for the year attributable to equity holders of the Company	**(57,153)**	602,401
Effect of dilutive potential ordinary shares:		
Interest on convertible notes charged to consolidated income statement	**5,219**	16,437
Change in fair value of embedded derivatives component of convertible notes	**(76,145)**	(66,980)
Exchange difference	**(18,855)**	(19,455)
(Loss) earnings for the purpose of diluted (loss) earnings per share	**(146,934)**	532,403

Number of shares

	2008	2007
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,252,000**	1,671,164
Effect of dilutive potential ordinary shares:		
Convertible notes	**89,423**	80,177
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**2,341,423**	1,751,341

Note: The computation of diluted loss per share for the year ended 31 December 2008 i) does not take into account for the effect of certain share options granted because the exercise price of those options was higher than the average market price of the Company's shares and ii) does not take into account for the exercise of the remaining share options, where the exercise price of those options was lower than the average market price of the Company's shares, as their exercise would result in a decrease in loss per share.

The computation of diluted earnings per share for the year ended 31 December 2007 does not take into account for i) the effect of share options granted because the exercise price of those options was higher than the average market price of the Company's shares and ii) the conversion of convertible notes with principal amount of US$80 million, which was redeemed in 2007, as the effect is anti-dilutive.

9. TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**267,891**	1,371,508
Receivable arising from disposal of property, plant and equipment	**—**	58,516
Receivable arising from disposal of investment properties	**—**	80,697
Other receivables	**291,844**	141,824
Advances to suppliers	**655,020**	381,855
Deposits for purchase of land use rights	**20,000**	259,773
Prepayments and deposits	**5,528**	5,149
	1,240,283	2,299,322

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

	2008	2007
	RMB'000	*RMB'000*
Age		
0 to 60 days	**151,582**	1,038,351
61 to 180 days	**81,719**	263,964
181 to 365 days	**7,608**	2,442
1 to 2 years	**9,579**	66,201
2 to 3 years	**17,403**	550
	267,891	1,371,508

Normally the average credit period on sale of properties is 60 days. For the corporate bulk sale customers, the average credit period extends to 180 days or one year.

10. TRADE AND OTHER PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade payables	**802,685**	500,588
Other payables	**132,982**	211,137
Other taxes payable	**40,116**	112,188
	975,783	823,913

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

	2008	2007
	RMB'000	*RMB'000*
Age:		
0 to 60 days	**310,926**	141,419
61 to 180 days	**188,271**	195,530
181 to 365 days	**110,705**	48,353
1 to 2 years	**121,148**	48,535
2 to 3 years	**33,274**	27,537
Over 3 years	**38,361**	39,214
	802,685	500,588

MANAGEMENT DISCUSSION AND ANALYSIS

China Property Market

The implementation of the austerity measures by the Chinese Government in the last quarter of 2007, which aimed to regulate the demand and supply as well as to cool down the overheated property market, creates uncertainties in the China property market in 2008. In the short run, the austerity measures have impact, which varies from city to city, on the property market such as softening of property prices. Under the austerity measures, the China property market is undergoing a consolidation period and moving towards a healthy operating environment in the long run.

Facing a fast growing market and the austerity measures implemented by the government, the Group believes that there are still several fundamental factors underpinning the development of the real estate market in China, and only those market players with strong brand name, operational expertise and financial strengths can survive and prosper in the long run. As one of the leading real estate developers, the Group responses swiftly to the market changes, adjusts its strategic plan under current market conditions, and implements a series of scientific management measures to further improve its core competitiveness. We are confident that it is well positioned to take advantage of the current market condition and will explore strategic opportunities in industry consolidation.

Business Review

After successfully implemented our development strategy nationwide in 2007, we have achieved a remarkable performance in Guangdong Province and Chongqing City in 2008.

Guangdong Province remains an important market of the Group, where approximately 58.0% of the total sales in 2008 were derived therefrom. The market responded favorably to the new units launched in Green No. 1 and Green No. 8 which are parts of the Nanguo Aoyuan project and over RMB423.2 million was sold in 2008.

Chongqing is one of the Group's strategic area in 2008. The Chongqing Aoyuan • City of Health began its pre-sale in June 2008 and results were remarkable with over 80,000 sq.m. in terms of gross floor area ("**GFA**") with a value of approximately RMB301.7 million were sold in the first month. Total saleable area of Chongqing Aoyuan • City of Health is over 500,000 sq.m. We are confident that Chongqing Aoyuan • City of Health will make significant contributions to the sales of the Group in the coming years.

In May 2008, the Group entered into a shareholders' agreement with MGP Asia III Holdings (BVI) Limited, pursuant to which both parties agreed to jointly develop a commercial property project in Panyu.

To enhance the Group's management and financing capabilities, we added new senior management to the Group in 2008. The Group has completed a re-engineering with the objective to enhance the operation efficiency.

Our project development is driven by sales and demand in the market in order to maintain a healthy cash flow. In 2008, approximately 354,400 sq.m. of GFA were completed and approximately 467,000 sq.m. of GFA commenced construction. Our sales revenue for 2008 was approximately RMB1,114.2 million with GFA of 227,652 sq.m. and details are as follows:

Projects	**Delivered and Sold Area** *sq.m.*	**Sales Revenue Amount** *RMB'000*
Fogang Aoyuan	9,138	39,730
Yu Zhong Ming Jun	43,850	137,410
Chongqing Aoyuan • City of Health	83,049	306,740
Nansha Aoyuan	16,123	115,410
Aoyuan • Jinsha Plaza	1,738	19,660
Nanguo Aoyuan	57,152	456,620
Panyu Aoyuan	1,566	14,960
Jiangxi Aoyuan	15,036	23,700
Total	227,652	1,114,230

In 2008, revenue net of sales return was approximately RMB609.0 million.

In 2008, two corporate customers of the Group, who had purchased certain properties in Nansha Aoyuan in Guangdong Province, failed to pay on time the outstanding amounts due to the financial tsunami, and offered to settle those amounts by returning the properties. The Board had considered taking legal actions to recover the debts. But as it usually takes two to three years to close a case, and vacancy of the building would have material adverse impact on the development and sales of the Group's Nansha Aoyuan project, we did not take such action. In order to duly recover the receivables and as we are confident in the promising prospect of the overall development of Nansha Aoyuan with the concept of "Health Garden", the Group agreed to settle those receivables with their properties and decided to acquire part of the properties in which consideration had been paid, so as to integrate all these properties into a "Health Garden" to promote the sales of Nansha Aoyuan as a whole. The final prices of the properties returned and acquired were 15.5% less than their original sales prices. The Board is of the opinion that this is in the best interest of the Company. Since the concept of "Health Garden" was introduced, it has significantly increased the sales volume and sales price of Nansha Aoyuan project. Sales amount for the first quarter of 2009 was about the same as that for the whole year of 2008, and the average selling price for March 2009 recorded an increase of 16.7% over January 2009. These transactions, with an aggregate amount of RMB505.2 million and an area of 84,483 sq.m., are accounted for as sales returns in the consolidated financial statements.

In 2008, the Group focused on development projects with low market risks and high and fast returns. The land bank of the Group as at 31 December 2008 was approximately 5.6 million sq.m., which is sufficient to meet our development needs in the coming five to seven years.

Future Outlook

As the China property market is undergoing a consolidation period in the coming years, a lot of opportunities of merger and acquisition will evolve in the market. We will increase our land bank by capturing the opportunities of merger and acquisition with a prudent and cautious attitude and based on our cashflow position.

The Group will continue to look for the co-operation opportunities with foreign as well as domestic investors with an aim to expand the network with financial institutions in the market for additional funding sources although the Group is currently in a healthy financial position.

In 2009, the Group will further implement the development strategy nationwide and expand beyond Guangdong. We will place more emphasis on developing projects at the city centres in our target cities. At the same time we will continue to implement our long established successful strategy of investing properties in the suburbs. We will adjust our development pace and continue to launch innovative products to meet the changing market needs.

In 2009, the Group plans to commence the development of new construction area approximately 116,000 sq.m. and complete approximately 606,000 sq.m.

Land Bank

We believe our land reserve has been acquired at relatively low cost compared to similar land in more developed urban centres. This is paramount to our long-term growth and sustainability. As of 31 December 2008, we had an aggregate of approximately 5.6 million sq.m. of GFA of which 0.5 million sq.m. is in completed projects, 1.1 million sq.m. in under development stage and approximately 4.0 million sq.m. in land held for future development.

Financial Review

Revenue

The revenue is primarily generated from two business segments: property development and property investment. For the year ended 31 December 2008, the Group's total revenue net of sales return was approximately RMB619.9 million; the revenue before sales return was approximately RMB1,125.2 million, representing a decrease of approximately RMB1,376.2 million or 55.0% over approximately RMB2,501.4 million in 2007. It was mainly attributable to the decrease in sales of properties.

Property development

In 2008, revenue generated from property development net of sales return amounted to approximately RMB609.0 million, and revenue before sales return amounted to approximately RMB1,114.2 million, decreased by 55.2% from approximately RMB2,488.3 million in 2007, is primarily due to a 40.4% decrease in total GFA delivered from 382,285 sq.m. in 2007 to 227,652 sq.m. in 2008. The average selling price of the properties delivered also decreased from RMB6,509.0 per sq.m. in 2007 to RMB4,894.3 per sq.m. in 2008, being a decrease of 24.8%. The relatively lower unit selling price is mainly due to the fact that approximately 40.0% of the recognized property sales is generated from Chongqing, which has lower unit selling price compared with the Guangdong region market.

Property investment

Revenue derived from property investment increased by approximately 11.8% to approximately RMB9.5 million in 2008 from approximately RMB8.5 million in 2007, primarily attributable to increase in GFA for rental purpose.

Sales return

In 2008 as mentioned in the Business Review section sales return amounted to approximately RMB505.2 million. In 2007 there was no sales return.

Cost of sales

Cost of sales included land and construction cost, decoration cost, capitalized interest and amortization of land premium. In 2008, cost of sales after adjusted for corresponding cost attributable to properties returned was approximately RMB597.2 million. Cost of sales before adjusted for corresponding cost attributable to properties returned was approximately RMB859.5 million, decreased by 27.0% from approximately RMB1,177.0 million in 2007, being in line with the significant decrease in revenue. However, the rising cost of construction materials and labour causes the increase of total cost of sales.

Gross profit and margin

In 2008, gross profit net of sales return was approximately RMB22.8 million, and gross profit before adjusted for sale returns would be approximately RMB265.6 million. Under the instable market conditions, the average selling price decreased while the cost of construction materials and labour kept rising. The gross margin was 52.9% in 2007, and it is 23.6% and 3.7% in 2008 before and after netting off sales return, respectively.

Other income

Other income of 2008 included bank interest income of approximately RMB15.8 million, imputed interest income derived from trade receivables of approximately RMB35.7 million and the write off of other payable of approximately RMB25.3 million. Other income of 2007 mainly included bank interest income of approximately RMB78.3 million derived from over-subscription monies during the Group's Global Offering in October 2007.

Selling and Administrative expenses

Selling and administrative expenses increased by 51.7% to approximately RMB333.6 million this year from approximately RMB219.9 million for the year 2007. The increase was mainly due to massive advertisement campaigns launched for new properties for sale resulting in the increase in selling expenses by 90.3% to approximately RMB135.3 million this year from approximately RMB71.1 million in 2007. The increase in headcount as a result of the Group's expansion in the first half of 2008 also led to an increase in expenses.

Financial Position

Total assets amounted to approximately RMB8,348.4 million as at 31 December 2008 (2007: RMB8,240.7 million) and total liabilities was approximately RMB3,459.0 million (2007: RMB3,196.6 million).

Current ratio was 3.5 as at 31 December 2008 (2007: 4.2). Net gearing ratio was 0.8% as at 31 December 2008.

Financial Resources and Liquidity

In 2008, the Group derived its sources of fund primarily from income generated from business operations, bank borrowings and cash proceeds raised from the Global Offering, which were used to finance its business operations and investment in development projects. The Group expects that income generated from business operations and bank borrowings will continue to be the main sources of funding in the coming year. In addition, the Group will continue to explore the opportunities of co-operation with foreign and domestic investors which provides another source of funding to the Group.

As at 31 December 2008, the Group has cash, bank balance and restricted bank deposits amounted to approximately RMB1,481.6 million (2007: RMB2,806.4 million). 97.5% of the cash and bank deposits was denominated in Renminbi, and 2.5% in Hong Kong dollars.

Contingent Liabilities

As at 31 December 2008, the Group had the following contingent liabilities relating to guarantees in respect of mortgage facilities provided by bank to purchasers amounting to approximately RMB646.8 million (2007: RMB333.5 million).

This represented the guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for the repayment of outstanding mortgage principals together with accrued interest and penalty owed by defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The amounts as at 31 December 2008 was to be discharged upon the earlier of (i) issuance of the real estate ownership certificate; and (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Commitment

As at 31 December 2008, the Group has approximately RMB1,788.0 million (2007: RMB2,783.3 million) construction cost contracted but not provided for. The Group expects to fund these commitments principally from pre-sale proceeds of the properties and partly from bank borrowings.

As at 31 December 2008, the Group also had approximately RMB207.8 million of commitment in respect of acquisition of a piece of land in Shenyang (2007: RMB931.2 million).

Foreign Currency risks

Most of the Group's revenues and operating costs were denominated in Renminbi. Most of the proceeds from Global Offering received in Hong Kong Dollars had remitted to the PRC in the first half of 2008 and therefore the Group is not exposed to major foreign exchange risks. For the year 2008, the Group recorded net exchange loss of approximately RMB40.3 million. The Group's operating cash flow or liquidity is not subject to any exchange rate fluctuations. The Group did not enter into any foreign exchange hedging arrangements as at 31 December 2008.

Pledge of assets

As at 31 December 2008, the Group pledged its property for development and properties under development to various banks of approximately RMB1,204.3 million to secure project loans and general banking facilities granted to the Group. (2007: RMB305.4 million)

Material acquisition and disposal of subsidiaries

The Group does not have any material acquisition or disposal of subsidiaries during 2008.

Employees and Remuneration

As at 31 December 2008, the Group employed a total of 336 employees. The Group has adopted a performance based rewarding system to motivate its staff and such system was reviewed on a regular basis. In addition to a basic salary, year-end bonuses will be offered to those staff with outstanding performance. The Group is also subject to social insurance contribution plans organized by the PRC governments, in accordance with the relevant national and local labour and social welfare laws and regulations, the Group is required to pay on behalf of the employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and housing reserve fund.

Moreover, a share option scheme has been adopted in September 2007 to retain talents who made significant contribution to the Group. As at 31 December 2008, share option in respect of a total of 65,332,000 shares of the Company was granted to certain Directors and employees. The Group believes the salaries and benefits that the employees receive are competitive in comparison with market rates.

CORPORATE GOVERNANCE

The Company focuses on maintaining high standard of corporate governance in order to achieve sustainable development and enhance corporate performance.

The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders to ensure the transparency and accountability of all operations of the Company.

Throughout the year under review, the Company has complied with provisions as set out in the Code on Corporate Governance Practices (the "**Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") except for the deviations as listed below:

Code Provision A.2.1

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

Mr Guo Zi Wen acts as the chairman and chief executive officer of the Company. He is responsible to ensure that the Board works effectively and formulates business strategies. He also provides leadership for the running of the Company's business and implementing the policies devised by the Board. The Board believes that Mr Guo Zi Wen in his dual capacity as the chairman and chief executive officer of the Company, can provide strong and consistent leadership for the development and allow for effective and efficient planning and implementation of business decisions and strategies of the Group.

Code provision A.1.3

Code provision A.1.3 stipulates that at least 14 days' notice should be given for a regular Board meeting.

During the year ended 31 December 2008, less than 14 days' notice was given for certain regular Board meetings in order to suit the tight and busy schedules of the participants.

The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for shareholders.

Audit Committee

The Audit Committee was established in accordance with the requirements of the Listing Rules for the purposes of reviewing the financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function, internal audit department or external auditors before submission to the Board. Besides, the main duties of the Audit Committee are to review and provide supervision over the Group's financial reporting system, internal control system and risk management system and make recommendation to the Board on any material issues in relation thereto. The Audit Committee is also responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors and considering any questions of resignation or dismissal of such auditors. The Audit Committee meets whenever deem necessary with the Company's external auditors to discuss the audit process and accounting issues. Their written terms of reference are in line with the Code provisions.

The Audit Committee consists of three independent non-executive Directors namely Mr Ma Kwai Yuen, Mr Song Xian Zhong and Mr Tsui King Fai. Mr Ma Kwan Yuen is the chairman of the said committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee reviewed, together with senior management, the internal audit department, the external auditors, the internal control system, the accounting principles and practices adopted by the Company, risk management, the annual results and reports for the year ended 31 December 2008 and other financial reporting and compliance matters of the Group and the Company.

Nomination Committee

The Nomination Committee is primarily responsible for considering and nominating suitable candidates to become members of the Board. The Nomination Committee is also responsible for reviewing the structure, size and composition of the Board on a regular basis and is required to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the

Company and assesses the independence of the independent non-executive Directors. The Nomination Committee is comprised of Mr Guo Zi Wen, Mr Leung Ping Chung, Hermann, Mr Ma Kwai Yuen, Mr Song Xian Zhong and Mr Tsui King Fai. Mr Guo Zi Wen is the chairman of the said committee.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations, reviewing and approving the executive Directors' and senior management's remuneration and other benefits as well as making recommendations to the Board on the remuneration of non-executive Directors to ensure that the level of their remunerations is reasonable. Besides, the Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration. Their written terms of reference are in line with the Code provisions. The Remuneration Committee is comprised of Mr Leung Ping Chung, Hermann, Mr Tsui King Fai and Mr Ma Kwai Yuen. Mr Leung Ping Chung, Hermann is the chairman of such committee.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the standard for securities transactions by Directors. The Company has made enquiries of all the Directors and all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2008.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by the relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the public float as required by the Listing Rules as at the latest practicable date prior to the issue of this announcement.

FINAL DIVIDEND

The Board does not recommend the payment of any dividend for the year 2008 (2007: RMB5.5 cents per share).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 June 2009 to 8 June 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the attending and voting at the 2009 Annual General Meeting (the "2009 AGM"), all transfers documents accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 3 June 2009.

ANNUAL GENERAL MEETING

The 2009 AGM of the Company will be held on 8 June 2009 and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

APPRECIATION

On behalf of the Board, I would like to express our sincere appreciation for the consistent confidence in and support for the Group from our shareholders, investors, business partners, customers and others who devote attention to the affairs of the Group. I would also like to thank our employees for their hard-working, admirable work ethic and professional performance during the year.

On behalf of the Board
China Aoyuan Property Group Limited
Guo Zi Wen
Chairman and CEO

Hong Kong, 24 April 2009

As at the date of this announcement, the Directors comprising of (1) the executive Directors namely Mr Guo Zi Wen, Mr Wu Jie Si, Mr Guo Zi Ning (Mr Guo Zi Ning is also the alternate Director of Mr He Jian Bing), Mr Zheng Jian Jun and Mr Hu Da Wei; (2) the non-executive Directors namely Mr Paul Steven Wolansky, Mr Leung Ping Chung, Hermann (Mr Leung Ping Chung, Hermann is also the alternate Director of Mr Paul Steven Wolansky) and Mr He Jian Bing; (3) the independent non-executive Directors namely Mr Song Xian Zhong, Mr Ma Kwai Yuen and Mr Tsui King Fai.