汎港地產集團 PAN HONG PROPERTY GROUP

# PAN HONG PROPERTY GROUP LIMITED

(Incorporated in Bermuda on 20 December 2005)
(Co. Reg. No: 37749)

## 1ST QUARTER FINANCIAL STATEMENT ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2008

## PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

**1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.**

Group Income Statement for 1st Quarter ended 31 March 2008. These figures have not been audited.

| RMB'000 | Group | | | Increase/ (Decrease) |
|---|---|---|---|---|
| | 3 months ended 31/03/2008 (Unaudited) | 3 months ended 31/03/2007 (Unaudited) (Restated) | | |
| Revenue | 11,732 | 4,127 | | 184.3% |
| Cost of Sales | (6,535) | (2,065) | (note 1) | 216.5% |
| **Gross Profit** | 5,197 | 2,062 | | 152.0% |
| Other income and gains | 2,557 | 1,774 | (note 2) | 44.1% |
| Selling expenses | (1,130) | (1,580) | | (28.5%) |
| Administrative expenses | (5,097) | (2,742) | | 85.9% |
| Other operating expenses | - | (170) | | (100.0%) |
| **Operating profit/(loss)** | 1,527 | (656) | | (332.8%) |
| Finance costs | (603) | - | | NM |
| Share of loss of a jointly controlled entity | (270) | - | | NM |
| **Profit/(Loss) before taxation** | 654 | (656) | (note 3) | (199.7%) |
| Taxation | (1,633) | (571) | (note 1) | 186.0% |
| **Loss for the period** | (979) | (1,227) | | (20.2%) |
| **Attributable to:** | | | | |
| Equity holders of the Company | (896) | (1,227) | | (27.0%) |
| Minority interests | (83) | - | | NM |
| | (979) | (1,227) | | (20.2%) |

NM: Not Meaningful

Notes:

Certain comparative figures for the 3 months ended 31 March 2007 were restated to conform with the accounting treatments adopted by the Group for the audited financial statements for the year ended 31 December 2007. Details of the restatement are set out in notes 1 and 2 below.

1) In light of the discussion of the International Financial Reporting Interpretations Committee on the scope of IAS 12, Income Taxes, and after reviewing the Group's accounting policies on land appreciation tax ("LAT") in the People's Republic of China ("PRC"), the directors of the Company decided that it is more appropriate to account for and present LAT as income tax under IAS 12.

   The cost of sales amount for the 3 months ended 31 March 2007 was reduced by approximately RMB 59,000 while the taxation for the same period was increased by approximately RMB 59,000 as a result of this change.

2) The Group recognized a gain of approximately RMB77.8 million in the first financial quarter ended 31 March 2007, arising from the difference between the purchase consideration of RMB 101.5 million and the net fair value of the assets acquired of RMB 179.3 million in connection with the acquisition of a 90.0% interest in the entire issued and paid-up capital of Ever Sure Industries Limited ("Ever Sure").

   As the Group has ongoing legal proceedings against the Vendor mentioned in Part 1 (b)(i), the directors of the Company therefore considered that the financial information of Ever Sure Group should not be consolidated in the annual financial statements for the year ended 31 December 2007. In this respect, the financial statement for the period ended 31 March 2007 had been restated to exclude Ever Sure and its subsidiary from the result and financial positions of the Group so as to conform with the accounting treatments adopted by the Group for the audited financial statements for the year ended 31 December 2007.

3)

| RMB'000 | Group<br>3 months ended 31/03/2008 (Unaudited) | Group<br>3 months ended 31/03/2007 (Unaudited) |
|---|---|---|
| Profit/(Loss) before taxation is arrived at after charging: | | |
| Finance costs wholly repayable within five year | | |
| - Bank loans | 544 | 1,970 |
| - Other loans | 541 | - |
| Less: amount capitalised in properties held under development | (482) | (1,970) |
| | 603 | - |
| Cost of properties held for sale recognised as expense | 5,971 | 1,911 |
| Depreciation of property, plant and equipment | 161 | 149 |
| Less: amount capitalised in properties held under development | (56) | (50) |
| | 105 | 99 |
| Loss on disposal of property, plant and equipment | - | 17 |
| Operating lease charges in respect of land and buildings | - | 247 |
| Less: amount capitalised in properties held under development | - | (26) |
| | - | 221 |
| Staff costs, including directors' remuneration | | |
| - wages and salaries | 2,267 | 1,484 |
| - retirement benefit scheme contributions - defined contribution plans | 15 | 21 |
| Less: amount capitalised in properties held under development | (683) | (491) |
| | 1,599 | 1,014 |
| Exchange loss | 4 | - |
| and crediting : | | |
| Interest income | | |
| - from bank deposits and cash at banks | 1,126 | 1,443 |
| - fair value change of financial assets at fair value through profit or loss | 1,225 | - |

Note: There was no non-audit fee incurred during the period (2007: NIL)

**1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.**

| RMB'000 | Group 31/03/2008 Unaudited | Group 31/12/2007 Audited | Company 31/03/2008 Unaudited | Company 31/12/2007 Audited |
|---|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 7,479 | 8,312 | - | - |
| Investment properties | 81,013 | 81,013 | - | - |
| Leasehold interest in land | 7,407 | 8,206 | - | - |
| Goodwill | 6,030 | 6,030 | - | - |
| Interests in subsidiaries | - | - | 278,608 | 278,608 |
| Interests in a jointly controlled entity | 49,596 | 49,702 | - | - |
| Other receivables | 20,000 | 20,000 | - | - |
| Deposit paid | 30,000 | 30,000 | - | - |
| Deferred tax assets | 11,000 | 11,000 | - | - |
| | **212,525** | **214,263** | **278,608** | **278,608** |
| **CURRENT ASSETS** | | | | |
| Properties held under development | 493,083 | 405,914 | - | - |
| Properties held for sale | 129,592 | 125,010 | - | - |
| Account receivables | 24,535 | 57,007 | - | - |
| Deposits, prepayments and other receivables | 206,799 | 200,453 | 1,734 | 1,564 |
| Amounts due from related parties | 2,500 | 538 | 247,228 | 248,626 |
| Pledged bank deposits | 12,805 | 12,805 | - | - |
| Cash and bank equivalents | 121,023 | 243,906 | 92 | 92 |
| | **990,337** | **1,045,633** | **249,054** | **250,282** |
| **CURRENT LIABILITIES** | | | | |
| Account payables | 158 | 2,105 | - | - |
| Accruals, receipts in advance and other payables | 198,896 | 161,343 | - | - |
| Provision for tax | 104,449 | 109,048 | - | - |
| Amount due to related parties | 87 | 91 | 6,395 | 6,395 |
| Bank and other loans | 82,721 | 105,563 | - | - |
| | **386,311** | **378,150** | **6,395** | **6,395** |
| **NET CURRENT ASSETS** | **604,026** | **667,483** | **242,659** | **243,887** |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **816,551** | **881,746** | **521,267** | **522,495** |
| **NON-CURRENT LIABILITIES** | | | | |
| Bank and other loans | 5,570 | 66,140 | - | - |
| Shareholder's loan | 17,794 | 17,794 | - | - |
| Deferred tax liabilities | 8,917 | 8,495 | - | - |
| | 32,281 | 92,429 | - | - |
| **NET ASSETS** | **784,270** | **789,317** | **521,267** | **522,495** |
| **EQUITY** | | | | |
| Share capital | 298,164 | 298,164 | 298,164 | 298,164 |
| Share premium | 153,080 | 153,080 | 153,080 | 153,080 |
| Reserves | 272,335 | 277,299 | 70,023 | 71,251 |
| **EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS** | 723,579 | 728,543 | 521,267 | 522,495 |
| **MINORITY INTERESTS** | 60,691 | 60,774 | - | - |
| **TOTAL EQUITY** | **784,270** | **789,317** | **521,267** | **522,495** |

Notes:

The Company refers to its announcement made on 28 February 2008:

*"On 14 December 2006, the Board of Directors of Pan Hong Property Group Limited ("Pan Hong" or the "Company") announced that Loerie Investments Limited ("Loerie"), a wholly owned subsidiary of the Company, had entered into a sale and purchase agreement (the "Agreement") with one Mr Liu Hong Shu (the "Vendor") in connection with the acquisition of a 90.0% interest in the entire issued and paid-up capital of Ever Sure Industries Limited ("Ever Sure") (the "Acquisition") at a consideration of HK$ 101.5 million. Pursuant to the Agreement, the legal completion date of this Acquisition is 31 August 2007.*

*Upon signing of the Agreement, the Company paid the sum of HK$30.0 million to the Vendor on 15 December 2006 as deposit and part payment of the Purchase Consideration. Pan Hong was subsequently offered two seats, out of a total of three seats, on the Board of Directors of Ever Sure and its PRC subsidiary (collectively the "Ever Sure Group"). As the Company has accepted the appointments which resulted in the Company having the power to govern the financial and operating policies of Ever Sure Group so as to obtain benefits from their activities. Therefore, Ever Sure Group was considered by the directors of the Company as subsidiaries because Ever Sure Group is controlled by the Company since 31 March 2007. Accordingly, the financial statements of Ever Sure Group were included in Pan Hong's consolidated financial statements from 31 March 2007.*

*The Group recognized a substantial gain of approximately RMB 77.8 million in the first financial quarter ended 31 March 2007, arising from the difference between the Purchase Consideration of RMB 101.5 million and the net fair value of the assets acquired of RMB 179.3 million.*

*Following its due diligence of Ever Sure, the Company has also sent a bank draft for the balance of the Purchase Consideration of approximately HK$71.5 million to Mallesons on 28 August 2007. Pan Hong has discharged all its obligations in accordance with the terms of the Agreement, which stipulated that the Acquisition was to be completed on 31 August 2007.*

*However, on 31 August 2007, the Vendor failed to fulfill his obligations under the Agreement, which required the transfer of legal ownership of 90.0% of the entire issued and paid-up capital of Ever Sure to Loerie. As a result, the Vendor had not collected the bank draft and the Group's liability of approximately HK$71.5 million had not been discharged while the funds remained in the Group's bank account as at 30 September 2007.*

*In connection with the above, the Vendor has failed to fulfill his obligation to complete the Acquisition on 31 August 2007, the agreed completion date of the Acquisition. After seeking legal counsel in Hong Kong, Pan Hong is of the view that it has a strong legal case against the Vendor. Accordingly, the Company has commenced legal proceedings in Hong Kong against the Vendor for breach of contract.*

*Subject to the completion of statutory external auditing for the financial year ending 31 December 2007 ("FY2007"), there may be an impact on the Company financial performance and net asset value for FY2007 if for any reason our claim against the Vendor is not successful or if specific performance of the Agreement is not granted to us by the courts in Hong Kong and damages awarded are not commensurate with the gain in value of the shares in Ever Sure or if it is subsequently determined (based on the International Financial Reporting Standards) that the Ever Sure Group should not be included for the purposes of the Company's financial reporting in view of the legal proceeding instituted.*

*Pan Hong's legal counsel in Hong Kong has advised that the Vendor does not have grounds to walk away from the transaction and has accordingly committed a material breach of the Agreement. Accordingly, the Company is of the view that it has a strong legal case against the Vendor to seek enforcement of specific performance of the Agreement and intends to commence legal proceedings against the Vendor in due course."*

Further to the above announcement made on 28 February 2008, the Group has continued legal proceedings against the Vendor for compulsory transfer of the 90% equity interest in Ever Sure to the Group. As at the end of the financial period on 31 March 2008, the legal proceedings were still continuing and the transfer of the 90% equity interest in Ever Sure to the Group still has not been effected. In view of the above, the Directors of the Company therefore considered that the financial information of Ever Sure Group should not be consolidated in the financial statements of the Group for the period ended 31 March 2008. This accounting treatment has been adopted by the Group for the audited financial statements for the year ended 31 December 2007.

## 1(b)(ii) Aggregate amount of group's borrowings and debt securities. Amount repayable in one year or less, or on demand

**Amount repayable in one year or less, or on demand**

| As at 31/03/2008 | | As at 31/12/2007 | |
|---|---|---|---|
| Secured | Unsecured | Secured | Unsecured |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 63,693 | 19,028 | 75,682 | 29,881 |

**Amount repayable after one year**

| As at 31/03/2008 | | As at 31/12/2007 | |
|---|---|---|---|
| Secured | Unsecured | Secured | Unsecured |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 5,570 | 17,794 (note 1) | 66,140 | 17,794 |

(1) The shareholder agreed not to demand repayment of this debt due from the Group until such time when the Group received full settlement on the non-current other receivables of RMB20,000,000.

**Details of any collateral**

Bank loans of approximately RMB6,081,000 were secured by the Group's land, including the land classified as properties held under development and leasehold interest in land and building as at 31 March 2008. Other loan of approximately RMB63,182,000 was secured by a deposit of RMB72,000,000 which was classified as "deposit paid" under current assets as at 31 March 2008.

**1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.**

| RMB'000 | Group 3 Months ended 31/03/2008 | Group 3 Months ended 31/03/2007 (Restated) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/(Loss) before taxation | 654 | (656) |
| Adjustments for: | | |
| Interest income | (1,126) | (1,443) |
| Interest expense | 603 | - |
| Depreciation | 161 | 99 |
| Share of loss of of a jointly controlled entity | 270 | - |
| **Operating cash flow before working capital change** | 562 | (2,000) |
| Increase in properties held under development & for sales | (91,751) | (26,302) |
| Decrese/(Increase) in account and other receivables, prepayments and deposits paid | 16,998 | (35,022) |
| Increase in amount due from a related party | (6,970) | - |
| Increase / (decrease) in account and other payables, accruals and receipts in advance | 35,266 | (6,385) |
| Increase in amount due to related parties | - | (29) |
| **Cash used in operations** | (45,895) | (69,738) |
| Income taxes paid | (5,102) | (496) |
| **Net cash used in operating activities** | (50,997) | (70,234) |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | (102) | (477) |
| Purchases of available-for-sales financial assets | - | (120) |
| Acquisition of a subsidiary, net | - | 501 |
| Interest received | 1,126 | 1,443 |
| **Net cash generated from investing activities** | 1,024 | 1,347 |
| **Cash flows from financing activities** | | |
| New loan made to a minority shareholder | - | (2,000) |
| Repayment to loan made to a minority shareholder | - | 391 |
| New borrowings | 70,000 | - |
| Repayment of borrowings | (143,889) | - |
| Decrease in pledged other deposits | 8,000 | - |
| Interest paid | (603) | - |
| **Net cash used in financing activities** | (66,492) | (1,609) |
| **Net decrease in cash and cash equivalents** | (116,465) | (70,496) |
| **Effect of foreign exchange difference** | (6,418) | (394) |
| **Cash and cash equivalents at beginning of period** | 243,906 | 221,356 |
| **Cash and cash equivalents at end of period** | 121,023 | 150,466 |

## 1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

| | Equity attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Share capital** | **Share premium** | **Merger reserve** | **Statutory reserve** | **Capital reserve** | **Exchange reserves** | **Retained earnings** | **Proposed final dividend** | **Total** | **Minority interests** | **Total equity** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **At 1 January 2007** | 292,164 | 116,727 | (2,243) | 6,058 | - | (1,773) | 99,600 | 4,800 | 515,333 | 32,663 | 547,996 |
| Loss for the period | - | - | - | - | - | - | (1,227) | - | (1,227) | - | (1,227) |
| Total income and expenses recognized during the period | - | - | - | - | - | - | (1,227) | - | (1,227) | - | (1,227) |
| Acquisition of a subsidiary | - | - | - | - | - | - | - | - | - | - | - |
| **At 31 March 2007 (restated)** | 292,164 | 116,727 | (2,243) | 6,058 | - | (1,773) | 98,373 | 4,800 | 514,106 | 32,663 | 546,769 |
| | | | | | | | | | | | |
| **At 1 January 2008** | 298,164 | 153,080 | (2,243) | 4,257 | 3,838 | (9,420) | 271,689 | 9,178 | 728,543 | 60,774 | 789,317 |
| Loss for the period | - | - | - | - | - | - | (896) | - | (896) | (83) | (979) |
| Exchange difference (net income / (expense) recognized directly to the equity) | - | - | - | - | - | (4,068) | - | - | (4,068) | - | (4,068) |
| Total income and expenses recognized during the period | - | - | - | - | - | (4,068) | (896) | - | (4,964) | (83) | (5,047) |
| **At 31 March 2008** | 298,164 | 153,080 | (2,243) | 4,257 | 3,838 | (13,488) | 270,793 | 9,178 | 723,579 | 60,691 | 784,270 |

| **Company** | **Share capital** | **Share premium** | **Contributed surplus** | **Retained profits** | **Proposed final dividend** | **Total** |
|---|---|---|---|---|---|---|
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **At 1 January 2007** | 292,164 | 116,727 | 59,579 | 637 | 4,800 | 473,907 |
| Loss for the period | - | - | - | (586) | - | (586) |
| Total income and expenses recognized during the period | - | - | - | (586) | - | (586) |
| **At 31 March 2007** | 292,164 | 116,727 | 59,579 | 51 | 4,800 | 473,321 |
| | | | | | | |
| **At 1 January 2008** | 298,164 | 153,080 | 59,579 | 2,494 | 9,178 | 522,495 |
| Loss for the period | - | - | - | (1,228) | - | (1,228) |
| Total income and expenses recognized during the period | - | - | - | (1,228) | - | (1,228) |
| **At 31 March 2008** | 298,164 | 153,080 | 59,579 | 1,266 | 9,178 | 521,267 |

**1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on.**

**State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

None.

**1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceeding year.**

| | As at 31/03/2008 | As at 31/12/2007 |
|---|---|---|
| Total number of issued ordinary shares | 490,000,000 | 490,000,000 |

There were no treasury shares held as at 31 March 2008 and 31 December 2007.

**1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable.

**2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have neither been audited nor reviewed by the Company's auditors.

**3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

**4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group has adopted the same accounting policies and methods of computations as stated in the audited financial statements for the year ended 31 December 2007, except for the adoption for the amended International Financial Reporting Standards (IRFSs) which become effective for financial year beginning on or after 1 January 2008. The adoption of these amended IFRSs did not give rise to significant change to the financial statements.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Not applicable.

**6. Profit per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

| | Group | |
|---|---|---|
| | 3 Months ended 31/03/2008 | 3 Months ended 31/03/2007 (Restated) |
| Loss per ordinary share (in RMB cents): | | |
| (a) Basic | (0.18) | (0.26) |
| (b) Diluted | N/A | N/A |

Note:
The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of approximately RMB896,000 (3 months ended 31 March 2007: RMB1,227,000) divided by the weighted average of 490,000,000 (3 months ended 31 March 2007 : 480,000,000) ordinary shares during the period.

Diluted loss per share for the period has been presented as there is no dilutive potential share for the three months ended 31 March 2008 and 2007.

**7. Net asset value (for the issuer and group) per ordinary share based on of the total number of issued shares excluding treasury shares of the issuer at the end of the:**
**(a) current financial period reported on; and**
**(b) immediately preceding financial year.**

| | Group | | Company | |
|---|---|---|---|---|
| | As at 31/03/2008 | As at 31/12/2007 | As at 31/03/2008 | As at 31/12/2007 |
| Net asset value per ordinary share (in RMB cents) | 160.06 | 161.09 | 106.38 | 106.63 |

Note:
The number of ordinary shares of the Company as at 31 March 2008 was 490,000,000 (31 December 2007: 490,000,000 ordinary shares.

**8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:**

**(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable)seasonal or cyclical factors; and**
**(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period report on.**

**(a) REVIEW OF FINANCIAL RESULTS FOR THE QUARTER ENDED 31 MARCH 2008 ("1Q08") COMPARED TO THE PREVIOUS CORRESPONDING QUARTER ENDED 31 MARCH 2007 ("1Q07")**

| Revenue (RMB'000) | 1Q08 | 1Q07 |
|---|---|---|
| Residential | 11,580 | 1,914 |
| Commercial and others | 152 | 2,213 |
| | 11,732 | 4,127 |

| Gross Profit (RMB'000) | 1Q08 | 1Q07 (restated) |
|---|---|---|
| Residential | 5,071 | 774 |
| Commercial and others | 126 | 1,288 |
| | 5,197 | 2,062 |

**Revenue**

Group revenue for the three months ended 31 March 2008 ("1Q08") was derived primarily from the sales of remaining units of Nanchang Honggu Kaixuan (南昌红谷凯旋) Phase 1 and Huzhou Liyang Jingyuan Phase 1 (湖州丽阳景苑第一期) ("Huzhou Liyang"), as there were no new project launches in 1Q08.

During 1Q08, the Group sold and completed the handover of 18 residential units of Nanchang Honggu Kaixuan Phase 1 which contributed to the residential sales of RMB 11.6 million. To-date, the Group has sold a total of 1,028 of the 1,127 residential units under Phase 1. At the end of 1Q08, the Group has completed the handover of an aggregate of 1,007 residential units.

In the previous corresponding financial quarter, Group revenue came from sales of the remaining residential and commercial units of Huzhou Liyang and Huzhou Zhili Yazhoucheng Phase 1. The total GFA sold in 1Q07 was around 1,075 sq m, which was less than the total GFA sold in 1Q08 of 2,281 sq m. As a result, Group revenue rose 184.3% to RMB 11.7 million in 1Q08.

As the Group is primarily engaged in the property development business, revenue recognition is dependent on launch of new projects and the completion of handover of properties that are sold. Hence, this may result in lumpy revenue and profitability for the Group on a quarterly basis.

**Cost of sales and Gross Profit Margin**

The Group's cost of sales rose by 216.5%, which was a faster pace than revenue, to RMB 6.5 million in 1Q08. Correspondingly, gross profit margin was lower at 44.3% compared to 50.0% in 1Q07. This was due primarily to the larger proportion of sales from commercial properties in 1Q07, which yielded higher profit margin.

**Other income and gains**

Other income and gains increased 44.1% to RMB 2.6 million in 1Q08, from RMB 1.8 million in 1Q07, due mainly to interest income and fair value change of financial assets at fair value through profit or loss.

**Selling expenses**

Selling expenses decreased 28.5% to RMB 1.1 million in 1Q08, compared to RMB 1.6 million previously. As the Group did not launch any new projects during 1Q08, selling expenses incurred were not material.

**Administrative expenses**

Administrative expenses increased by RMB 2.4 million year-on-year to RMB 5.1 million in 1Q08. The higher administrative expenses were attributed primarily to higher salaries from wage adjustments and higher headcount, legal expenses from the legal proceedings against Ever Sure Industries Limited, as well as an increase in other expenses.

**Operating Profit and Loss Attributable to Equity Holders of the Company**

As a result of the above factors, the Group recorded an operating profit of RMB 1.5 million in 1Q08, against an operating loss of RMB 0.7 million in 1Q07.

Finance costs amounted to RMB 0.6 million for the quarter due to interest incurred on bank borrowings to fund working capital requirements.

The PRC income tax rate has been revised to 25% with effect from January 2008, a reduction from 33% in 2007. After deducting total taxation of RMB 1.6 million (which includes provision for LAT of RMB 0.3 million) for the quarter, the Group posted a small loss of RMB 1.0 million in 1Q08. Correspondingly, the loss attributable to equity holders of the Company was around RMB 0.9 million in 1Q08.

**(b) REVIEW OF FINANCIAL POSITION AS AT 31 MARCH 2008**

As at 31 March 2008, the Group's properties held under development amounted to RMB 493.1 million, which is an increase from RMB 405.9 million at the end of December 2007. This was due mainly to an increase in development costs for the Group's new property projects – Hua Cui Ting Yuan, Hangzhou Liyang Yuan, Nanchang Honggu Kaixuan (Phase 2) and Huzhou Liyang Jingyuan (Phase 2).

Properties held for sale rose marginally to RMB 129.6 million at the end of 1Q08. These properties comprise primarily the completed commercial and residential units of Nanchang Honggu Kaixuan (Phase 1).

During this financial quarter, the Group saw a decrease in accounts receivables that was primarily due from purchasers of property units and banks. The deposits, prepayments and other receivables at end of 31 March 2008 consists of a RMB 90.0 million deposit in relation to the acquisition of land in Fuzhou, pledged deposits to secure bank borrowings, and prepayments for construction of property projects. However, the higher amount of cash deployed in developing properties resulted in negative net cash from operating activities of RMB 42.5 million in 1Q08.

Accruals, advance receipt and other payables increased by around RMB 37.6 million from 31 December 2007 as a result of an increase in provision of construction costs for the Nanchang Honggu Kaixuan project.

After repaying borrowings of RMB 143.9 million, the Group ended 1Q08 with cash and cash equivalents of RMB 121.0 million. The Group's financial position remains sound, with a gearing of 13.5% as at 31 March 2008.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

No forecast or a prospect statement has been previously disclosed to shareholders.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

In a move to cool China's property market, the Chinese government has implemented a slew of regulatory measures to curb property speculation and ensure a more balanced supply and affordable housing. The tighter credit conditions for both property developers and home buyers have raised the level of uncertainty on the near term outlook of China's property sector.

Amid this market climate, property transaction volumes in certain cities have slowed in recent months as prospective home buyers adopt a wait-and-see approach. However, some of these cities in China have reported a recovery in the transaction volumes in March 2008.

Based on a joint statement by the National Development and Reform Commission (NDRC) and the National Bureau Statistics on 18 April 2008, property prices in 70 large and mid-sized Chinese cities rose 11% year-on-year in the first quarter of 2008. The price hike is 0.8 percentage points higher than that in the previous quarter.

During the first three months of 2008, the Group has also witnessed continued increases in property prices in the second and third-tier cities which are its primary focus markets. The resilience in these lower-tier cities is primarily underpinned by the real demand for housing from residents.

According to a statement by the NDRC on 23 April 2008, the upward pressure on property prices is expected to increase in the second quarter of 2008 as more people channel their money into property to avoid potential erosion of real returns on bank deposits.

While the business environment for property developers has become more challenging, the Group believes that the long-term prospects of China's property sector remain favourable. There are ample business opportunities in the long run, particularly in the second and third-tier cities which are at the earlier stages of economic development and urbanization. The unrelenting pace of urbanization, greater consumer affluence, increasing demand for better living standards, and scarcity of land are factors that underpin a potentially huge real demand for housing in the coming years. Indeed, the property sector is regarded as one of the key pillars of China's economy.

The Group believes it is well-positioned to withstand the tighter conditions in the credit market due to its sound financial position, prudent management of cash and capital structure, as well as its high credit-worthiness with banks which enables the Group to tap loan facilities readily when required.

Furthermore, the Group's active land acquisition strategy in FY2007 has strengthened its foundation as the Group presently has fairly substantial and strategically-located land reserves for development over the next three to five years. The Group also has the benefit of extensive management expertise in China's property sector which is an important attribute in sustaining the Group's continued progress.

The Group has plans to launch four projects in FY2008, namely Nanchang Honggu Kaixuan (Phase 2) in Nanchang city, Hua Cui Ting Yuan in Huzhou city, Hangzhou Liyang Yuan in Hangzhou city, and Huzhou Liyang Jingyuan Phase 2 in Huzhou city. At present, the Group's intention is to unveil these projects progressively around the middle or in the third quarter of FY2008. As market timing is pertinent for property launches, the Group is closely monitoring the market situation.

Meanwhile, construction of new projects is progressing as planned as the Group continues with its sales planning and preparation work. In view of the continued development of the services sector in China, the Group may consider retaining certain commercial units and office tower of Nanchang Honggu Kaixuan project as investment properties. This should add more stability to the Group's future revenue streams. The Group will provide an update when it has reached a decision on whether to sell or lease the commercial units of Nanchang Honggu Kaixuan.

As the Group is primarily engaged in the property development business, revenue recognition is dependent on launch of new projects and the completion of handover of properties that are sold. Hence, this may result in lumpy revenue and profitability for the Group on a quarterly basis. Barring any unforeseen circumstances, the Group expects the revenue and earnings for the financial period from 1 January 2008 to 31 March 2009 to be favourable.

To facilitate better management of the Group's internal processes and smoother flow of its operations, the Board of Directors has decided to change the Group's financial year end to 31 March instead of 31 December. As such, the current financial period will cover a period of 15 months from 1 January 2008 to 31 March 2009. Please refer to a separate company announcement "Change of Financial Year" issued on 6 May 2008.

## 11. Dividend

### (a) Current Financial Period Reported On

None.

### (b) Corresponding Period of the Immediately Preceding Financial Year

**Any dividend declared for the corresponding period of the immediately preceding financial year?**

None.

### (c) Date payable

Not applicable.

### (d) Books closure date

Not applicable.

## 12. If no dividend has been declared/recommended, a statement to that effect.

No dividend has been declared or recommended for the financial period ended 31 March 2008.

BY ORDER OF THE BOARD

Wong Lam Ping
Chairman
6 May 2008

Note:

The initial public offering of the Company's shares was sponsored by CIMB-GK Securities Pte. Ltd.

**NEGATIVE ASSURANCE CONFIRMATION**

**Statement by Directors pursuant to SGX Listing Rule 705(4)**

We confirm that to the best of our knowledge, nothing has come to the attention of the Board of Directors of Pan Hong Property Group Limited which may render these interim financial results for the quarter ended 31 March 2008 to be false or misleading in any material aspect.

For and on behalf of the
Board of Directors of
Pan Hong Property Group Limited

Wong Lam Ping
Executive Chairman

Chan Heung Ling
Deputy Chairman

Date: 6 May 2008